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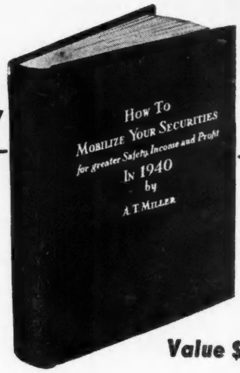

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With The Editors

Random Thoughts for 1940

THE stock market always "looks good" when it is going up, and "looks bad" when it is going down. More money can be made from reading the earnings reports than from reading the ticker tape.

Tips frequently come from people who already own the stock they are tipping and who want you to help them to put it up or to make it easier for them to sell. They are seeking a profit for themselves, not for you.

The broker requires margin for his own protection, not for yours. Before you consider how much you can win by trading on a minimum margin, consider how much money you can afford to lose. Also consider your own peace of mind and the balance in trading policy which is lost when emotion intervenes.

Greed, fear and impatience ruin as many speculators as bad judgment. Buy a stock outright or on conservative margin if you would guard yourself from these implacable enemies of rational thought.

Percentage works both ways and a $10 stock can be more expensive than a $100 stock. With a few exceptions there is a perfectly valid reason why one issue sells at $10 and another at $100.

Probable future earnings have more to do with making a stock's price than past or current earnings, and both current and future earnings are more important than the question whether the number of shares outstanding is large or small.

Leverage is advantageous to the speculator or investor when a corporation's earning power is improving, but deals double injury to your pocketbook when the company's business takes a turn for the worse. Before you accept its presence as an invitation, remember that it is also a warning. It would not be there if bondholders or preferred stockholders or both did not rank ahead of you in claim upon the company's revenues.

Speculative opportunities are not confined to common stocks. Often they are both safer and more promising in speculative bonds or preferred stocks.

Sales are your company's life blood, but working capital is its backbone. It must have both to survive and prosper.

No one can predict for you the outcome of present unsettled world conditions. Most of the soothsayers were wrong about the prospect of this war coming to pass, and most of them were also wrong about its effect on the stock market if it should ever occur. The chances are that current guesses about its duration and outcome are equally poor. A little greater than average skepticism is the prescription for 1940.

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

Examining the Base for Sustained 1940 Activity

By GEORGE W. MATHIS

Stockholders' Panorama of the Chemical Industry

—A 10-Page Survey—

By WARD GATES

10 Stock Market Leaders for 1940

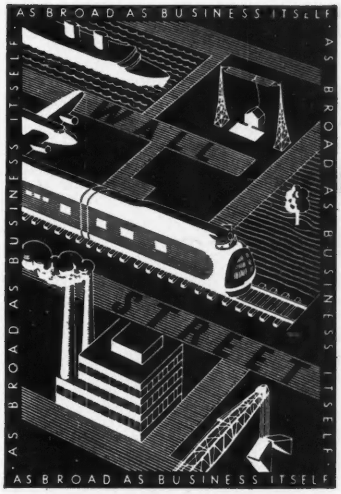
By THE MAGAZINE OF WALL STREET STAFF

Nesmith Photo

The few beacons that guide a blacked-out world have longer beams because of the darkness. Faced with unprecedented strains in 1939, American business handled every crisis with common sense and a minimum of fluster. It deserves our congratulations—and our confidence that the 1940 record will be fully as bright.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* : LAURENCE STERN, *Managing Editor*



Questions of the Day

Does action of the British Ministry of Supply in setting higher prices for copper, lead and zinc spell increased metal prices here and in other countries?

That it absolutely does not is an excellent example of the changes the war has brought into the world. Price relationships have been upset by fixed delivery rates, foreign exchange fluctuations, strikingly unusual charges for insurance and shipping, in addition to production and import quotas, tariffs and so on. Copper in England and copper in this country might be two entirely different commodities so far as price is concerned. That should be qualified, however, by recognizing the very broad, fundamental trends of supply and demand as still operative despite all the devices aimed at influencing them.

What are the prospects for a Republican victory in the national election next autumn?

The tide turned against the New Deal in the 1938 elections and apparently has continued to run against it, despite a temporary backswing following outbreak of the war. Now that fears of American involvement have waned, political normalcy is reasserting itself. Almost invariably a swing of voting opinion after six years of one party's domination carries on to the full overturn two years later. Yet there are many "ifs" in the picture. Will Roosevelt seek a third nomination and thereby split the Democratic Party? Will he dictate the nomination of his own hand-picked liberal and would that also split the Democratic Party? Among the other "ifs" will be business conditions, and possibly the status of world conditions, as election approaches. Finally, much will depend upon the quality of the Republican candidate and his program. The real swing in this country is neither to Right nor Left, but to the middle of the road. The clock can not be turned back to "Old Guard Republicanism." What the people want is attainment as far as possible of the New Deal's desirable social and economic objectives through methods more practical and effective than those used in recent years. Among the prominent Republicans the two candidates who seem to comprehend these realities most fully are Vandenberg and Dewey.

If eight or ten million people can't find jobs now, with the Federal Reserve Board production index at the highest level ever known, how can our unemployment problem ever be solved?

The prospect is not as bleak as it sounds from that summary. In the first place, industrial production is not business, does not account for more than a respectable fraction of wage payments. Its moves are always sharper than the fluctuations in the general pace of distribution and consumption. Ask the average store owner if his business is twenty per cent above that of a year ago and his answer will make the lag very clear.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS · 1907 — *"Over Thirty-Two Years of Service"* — 1939

And the establishment of a new high record for the production index (which is not compensated for the growth of the country) is some practical proof that this record may be exceeded on the next upward drive. Another most important point to consider is that good business, even in all its branches, must stay good for some time before its effects trickle down into the thousands of smallest units, which in the aggregate hire and fire a tremendous number of workers. Finally, the practical limitations in putting men back to work can't be ignored. A certain number may be added to forces immediately they are needed, but after that the preparations for using additional help take time. When one considers that almost as many are employed today as in 1929, the problem of absorbing the increase in working population is not in the hopeless class.

The Trend of Events

LOOKING AHEAD . . . With things as they are in the world today it is literally anybody's guess what the course of business will be in 1940, although the momentum of the recent recovery will almost surely make the first quarter a relatively satisfactory period. The European war is not the only reason for the spirit of caution common to business men, investors and business forecasters as 1939 draws to a close. In many minds a particularly big question has been raised by the speed of the business rise since August and by the present advanced level of activity in the durable goods industries.

Every major peak in modern business cycles is characterized by activity in durable goods comparable to that now existing—but this does not necessarily imply early reaction or depression. With this publication's seasonally adjusted per capita index around 97, we are near the theoretical "normal" represented by the 1923-1925 average. The important question is how long we can stay in the vicinity of normal volume, rather than how much farther business can rise. Our index has been at or above 90 for only five months. It was above 90 for sixteen consecutive months in 1936-1937. It was above 90 for *five consecutive years* in the prosperous '20's.

No major maladjustments in the price structure, in inventories, in credit expansion or in industrial operating costs have developed. If they remain absent, the duration of the major upward cycle which began in the late spring of 1938 may quite possibly confound our present doubting Thomases.

Taking a broader look, over the decade since 1929 our output of durable goods has approximated 60 per cent of estimated normal, according to indexes of the Federal Reserve Bank of New York, as compared with 113 for the years 1923-1925. In short, our economy has been on a starvation diet most of the time for ten years, with relatively short interludes of fairly good eating in 1936-1937 and in 1939. Do we have to come down with economic gout on a diet that we habitually took as merely normal for many years prior to 1929?

NO "PHONEY" WAR . . . Those of our public men—including Senator Borah—who three months ago were calling it a "phoney" war probably feel a bit silly by now. Two things have become quite plain. First, so far as concerns the survival of Hitlerism in Europe, it is going to be a war to the death, regardless of whether it eventually involves the slaughter of millions of soldiers. Second, in every aspect of their strategy the Allies are conducting this war far more intelligently and efficiently than was the case in the World War twenty-five years ago.

One can sense a growing frustration in Germany, a growing conviction elsewhere that the Allied cause will prevail. Reasons for confidence are not lacking. The Germans have not dared risk trying their much talked of *Blitzkrieg* and the Allies are steadily catching up in air strength. With German shipping swept from the seas and British merchant marine and naval losses far less than in the most trying days of the World War the Nazi claims—for home consumption—that British sea power has been smashed have an almost pathetically hollow sound. To the Germans the fruits of Hitler's "master stroke"—the deal with Russia—become ever more distasteful, and either victory or defeat for Stalin in Finland will be a loss for the Reich.

Starting a new year—though it can in no event be an entirely happy year—the Allies are doing all right.

LABOR REFORM . . . A Congress without its investigations would scarcely be a Congress at all. Nor is this perennial inquisitiveness on the part of our legislators a bad thing. There is, inevitably, much lost motion and grandstanding for political effect. And, unfortunately, many an investigation degenerates into a witch hunt. But, by and large, more good than evil comes of the practice.

Take the current probe of the National Labor Relations Board. A sore spot, virtually since its creation, this agency has long warranted Congressional examination. Even in the short time that the investigation has been under way, quite a little of interest has come to light. Evidence, for example, that one or more of its members may have aided and abetted a labor dispute, and indications that all is not harmonious and serene among the members of the Board.

The Wagner Act's friends (both of them) insist that if things have not worked out too well, the fault lies only in the law's administration, that the law itself cannot be improved. But the great majority of opinion is that both the Board *and* the law can and will be im-

proved considerably when Congress turns to this job.

There are other indications of an improving labor situation. Despite the Chrysler tie-up, strikes have been gradually diminishing both in number and severity. The weight of public opinion is at length having its effects on the leaders of organized labor.

WAR PRICE INFLATION? . . . The recent excited rise in prices of raw materials may or may not have continuing significance as an economic factor. It has been a far from general advance. In fact if agricultural products—still low in price when reckoned by former standards—were omitted from the composite indexes, it would be hard to drum up immediate interest in the specter of a major price inflation incident to the war. The recent commodity speculation, partially corrected by reaction at the moment, appears to rest partly on domestic drought, partly on war factors.

Certainly it is devoutly to be hoped that we can continue to escape a major price rise for among the devastating effects of war one of the worst is the impact on the world price structure. There has never been a war-time price inflation that was not followed by a most painful peace-time price deflation.

So far, since outbreak of the war, raw materials have advanced 10 per cent, semi-manufactured products 9.5 per cent, and finished goods 3.4 per cent, measured by the broad indexes of the Bureau of Labor Statistics. As compared with a year ago, however, raw materials are up only 2.2 per cent, and finished goods only 1.7 per cent, while semi-manufactures are up 8.5 per cent. Expressed as percentage of the 1926 price average, the current relationships of these three commodity groups are: raw materials, 72.8; semi-manufactures, 81.5; finished goods, 82.

Thus raw materials are still a bit low in comparison with finished goods but the rise in semi-manufactures will be dangerous if it continues, for in that event manufacturers would be under increasing pressure to raise finished goods prices in order to preserve profit margins. Such a spiral of price inflation would produce a fake, rather than a real, expansion in business activity.

HIGH FINANCE . . . As budget time draws near, we are asked to cross our eyes in order to see more clearly the tax problems involved. For there are, it seems, two kinds of taxes—or is it three? Anyhow, these taxes do not differ in how or on whom they are levied but only in how they are spent. And, when it comes to national defense, they do not differ even in this respect. Perhaps that is not altogether clear, but we can assure you that it will be even less so in a minute.

First there are the taxes that will be applied against the usual operating expenses of the Government plus such additional outlays as relief, etc., that were once regarded as emergency items but have now come to be considered as normal. These taxes will, of course, fall considerably short of estimated expenditures and even further short of actual expenditures. For though the regular budget, it is understood, will be pared appreciably, fiscal 1941 will not be half over before the inevitable subject of deficiency appropriations is raised once more.

Then there are farm benefit taxes, past and present. In 1938 and 1939, Congress appropriated some $550,000,000 for payments to farmers over and above the amount provided for by the President in his budget. The President now requests that the legislature reimburse the Treasury for these outlays by levying new taxes next year.

Finally there are the taxes that will be needed to meet the $500,000,000 scheduled increase in national defense expenditures. These, be it noted, are quite distinct from taxes to defray the $1,750,000,000 we are already spending annually on national defense.

PRODUCT COMPETITION . . . If competition is the life of trade, it is also sometimes the death. But, in the latter instance, there invariably follows a reincarnation in which new products and new processes play a continuing part.

For competition in industry is by no means confined to entrepreneurial individuals or organizations. It is constantly in progress between products and methods that are not the sole property of any single owner. More and more these innovations, mostly the result of chemical synthesis, are replacing less suitable or more costly materials for a growing number of uses.

Rayon has for some years been rapidly taking the place of silk in many fields. But in at least one field—women's hosiery—silk has been able to maintain its own. Latterly, however, a new material, nylon, has made its appearance and, judging from reports of the hosiery trade, silk is now threatened in its last stronghold. Nylon will shortly be in commercial production by du Pont and is expected to be taken in increasing quantities by hosiery manufacturers.

Then there is vinyon, a new synthetic fabric developed by Union Carbide which American Viscose has been licensed to manufacture. This material is somewhat similar to nylon but is not competitive as it is expected to find its principal market in the industrial field for use in filters, etc.

There are many others, such as rubber foam in place of coil springs and fibreglass for varied uses. But their mere enumeration does not drive home the point—which is that competition is not necessarily a personal or corporate thing. Rather, much of it stems directly from the continuing progress of technology, having its inception among the inanimate objects of the laboratory.

What Market Action to Take

A Trading Rally Traditional to the Season Still Seems a Short-Range Probability, Although Current Technical Indications Are Virtually Neutral. Beyond This the Outlook at the Present Time Is Too Uncertain to Justify Conviction.

BY A. T. MILLER

THIS is written on Saturday, December 23, with Christmas cheer plentiful almost everywhere—except in the warring countries of Europe and in our apathetic stock market. The market's box score for the past fortnight, in terms of the averages, has been no hits, no runs, no errors; with the cross-currents incident to year-end tax operations reflected about equally in a sprinkling of individual new highs and new lows for the year.

In this final short session prior to the world's most cherished holiday week, the market's technical action seems to show a very slight bias toward the upside. Possibly the last week of 1939 will come through with the rally traditional to the season. If not, the market—always fond of whimsically doing the unexpected—might copper disappointed bulls by an early January rally.

After three and one-half months of sidewise drift, with the industrial average nearly 7 points below its September high and with a majority of the most spectacular gainers on the initial war rise down 10 to 25 per cent from the year's most advanced levels, the general technical position can hardly be seriously vulnerable—barring an improbable major shock in the war developments. On the other hand, we are unable to sense new forces capable in the near future of pushing the market into a sustained rise.

If this view is correct any nearby rally can be expected to be merely a trading affair, failing to penetrate the clearly defined resistance area at 155-156, Dow-Jones, and with the chances even doubtful that 153 will be topped. Following any kind of a rally, or following failure of a rally to develop, we would be on the lookout for a test of previous lows before the end of January. We entertain a tentative view—so tentative in this puzzling world that it might better be called a hunch—that a reaction around mid-winter might well provide a likely buying spot on the reasoning that a probably moderate business recession will have been psychologically and technically discounted by then, with corporate earning power still highly favorable.

Meanwhile it is unfortunately true that current technical indications are too nearly neutral to be confidently relied on, and that we are heading into a new year under conditions which make the hardiest business, market and political forecasters most humble and cautious in their longer range 1940 observations.

Conservative investors can meet this problem by compromise, with a backlog of cash against contingencies and with a diversified portfolio balanced, according to individual requirements, between "defensive" and "offensive" securities. But those who yearn for a major appreciation of cyclical-type common stocks in 1940 have very little of a tangible nature to tie to at the present time. It may come. It may not. Starting 1940, we don't pretend to be able to see any great distance around the corner.

We can, however, take a look at some of the 1940 contingencies and endeavor not to be surprised when and if they develop. First, the war *may* spread over a wider area of Europe and assume a character that will create a large demand for our goods. We think, on the present limited evidence, that this is somewhat improbable, and that it is very improbable that this country will become involved. Second, the war may end by spring or summer. We have no opinion on this. If it should and if the market has not meanwhile had a considerable advance, the reaction would be limited and probably confined to war baby issues. Indeed, such issues might well have gradually discounted the event in advance so that peace—coppering preconceptions—might be as quickly bullish as was the outbreak of war.

Third, it is possible that our domestic political outlook may sufficiently clarify by mid-1940 to create an investor confidence and a demand for equities greater than we have seen in many years. Such a setting could be dynamically bullish if the war had ended and if within the first half of the year there had been a shake-down in business and markets—and especially so if both of these latter contingencies had developed.

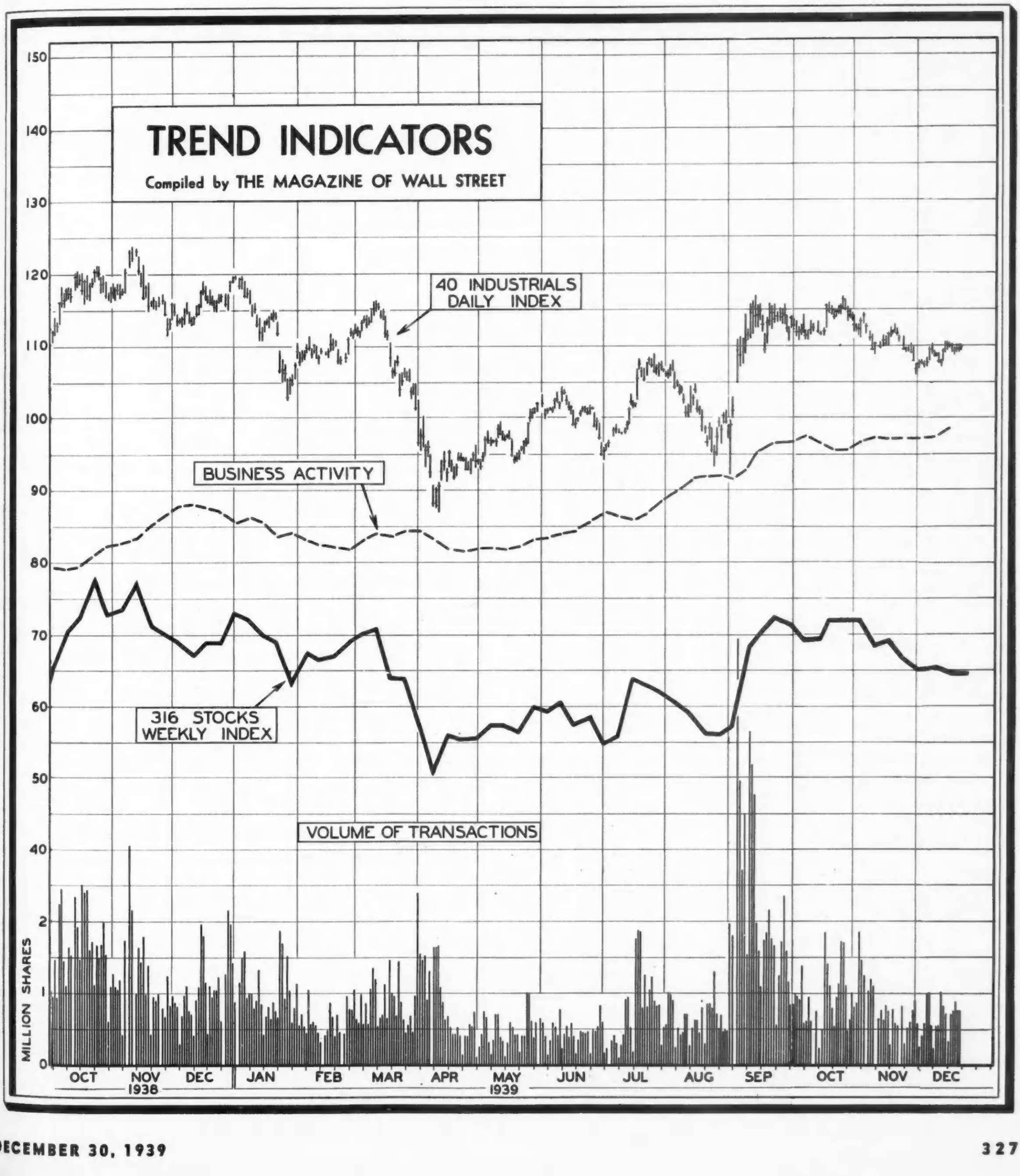
Fourth, the favorable bank credit trend of the past two years—in which expansion of member bank investments is the key factor—may continue. On the evidence of all past history, such a credit trend would preclude

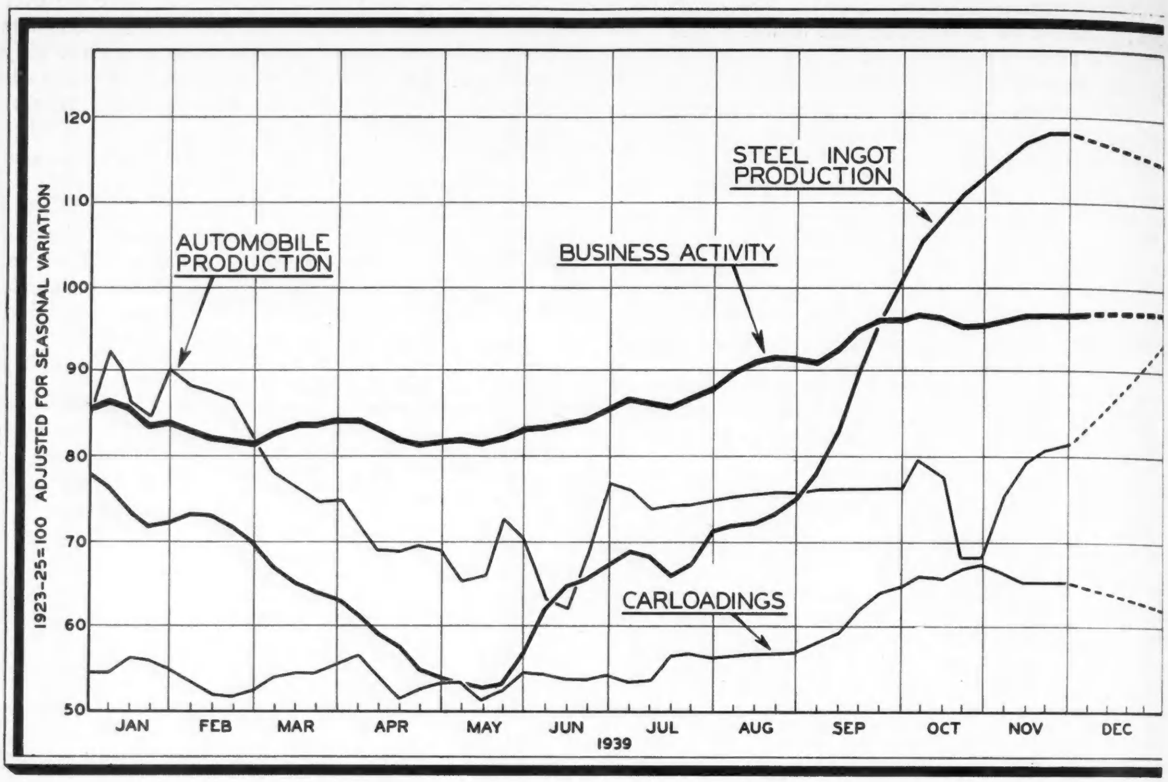
a business depression and a bear market—unless this country should be involved in war, in which case there would be a bear market—but it would not of itself preclude intermediate reactions in business or market. Fifth, there may be a deflationary change in the credit picture, with banks liquidating Government bonds, in which case one would best be entirely out of cyclical stocks. Sixth, there may be a deflationary change, affecting price levels and foreign trade, in the sterling-dollar relationship, its importance depending upon corollary circumstances that could only be appraised at the time.

Perhaps the strongest ground for hope is the prevailing consensus of caution and doubt. We have never seen a major recovery cycle accompanied by as much distrust as has been the case with this one; nor have we ever seen any strong consensus of opinion regarding business or market prospects work out. The consensus was highly optimistic in early 1937. It was wrong. The consensus was gloomy and doubtful in the spring of 1938. It was wrong. At the close of 1938 the consensus was that things would be all right for the first few months of 1939 but that the second half would stink!

Of course, part of the present caution is merely the normal tendency to put a relatively low appraisal on business volume and earnings in time of war. Even so, we have a feeling that our present politico-economic foundations are more solid than the skeptics imagine.

—Saturday, December 23.





BUSINESS FOR THE FIRST QUARTER, AND THE OUTLOOK FOR LEADING INDUSTRIES

What with acts of God, man and Hitler, the business forecaster's job was never more hazardous than it is today. The war, its possible intensification or its possible end, the national political campaign and its culmination next fall in victory for pro-business or anti-business forces, droughts, floods and the tactics of organized labor—these are some of the incalculables that will shape the course of industry and commerce in 1940.

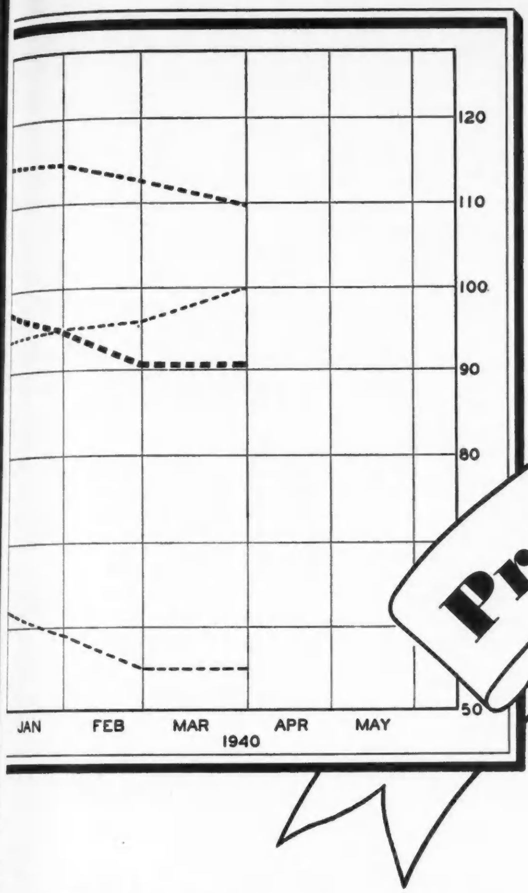
Obviously, little can be said of what the year as a whole will bring forth. Even our predictions for the next few months must rest to some extent upon assumptions the validity of which cannot definitely be established in advance. They are (1) that the war will be neither intensified, importantly extended nor terminated within the next three months, (2) that spring floods, if they occur, will not be severe, (3) that preconvention campaigning with its usual repercussions in Congress and elsewhere will remain at a minimum for several months and (4) that labor will remain comparatively inactive throughout the first quarter.

With the foregoing as a basis of estimate, what of the forces for contraction or further expansion next quarter that are being generated within the structure of business itself? To evaluate these at all accurately, we must glance briefly back over the record of the past few months.

When the war began in early September, domestic business activity had already been trending gradually upward for approximately four months. Low point for the year, as measured by this publication's seasonally adjusted per capita index, was 81.6 for the fourth week of April. By the last week of August the index had recovered to 91.8, a gain of 12½ per cent.

With the outbreak of hostilities, however, the recovery movement gained momentum. In the single month of September the index jumped nearly five more points to 96.7. The Chrysler strike and consequent restriction of automobile output resulted in a mild reaction in overall activity during the latter part of October, but the rise was resumed in November though at a somewhat more leisurely pace. Preliminary estimates indicate that the average for December has been about on a par with or perhaps slightly better than the best weekly levels of the preceding month.

By and large, the advance of the past few months has been unusually sharp, especially in the heavy industries. And in its more recent phases it has been without precedent in not a few lines. The early autumn advance in carloadings was the fastest on record for any comparable period of time and resulted in a deluge of orders for the rail equipment makers such as they had not seen in many a moon. Similarly, steel operations fairly skyrocketed while production in the chemical, machine tool, electric power and aviation industries reached new high



Preview for 1940

BY GEORGE W. MATHIS

levels. Many less spectacular gains occurred elsewhere.

But for some weeks, now, the inevitable handwriting on the wall has been becoming increasingly legible. What it says is "reaction ahead" and the weight of the evidence suggests that that reaction is at hand.

New orders for both consumers and producers goods have dropped appreciably since late November and, as industrial output has continued to expand, backlogs have probably begun to dwindle though they are still large. Inventories, which have been growing for several months, are not unwieldy but are now believed entirely sufficient from the standpoint of current and nearby prospective demand, thus obviating the desirability of further production for stock. The recent rise in commodity prices, confined mainly to agricultural products, was not enough to induce any worthwhile amount of speculative raw material purchases by manufacturers and processors.

It is primarily this combination of circumstances that suggests a moderate letdown in activity next quarter. Such a development will, of course, be quite in keeping with the traditional scheme of things for business is never a one-way affair for more than a limited period of time. On the other hand, there is nothing to suggest that the major trend is not still strongly upward, or that any reaction to develop from here will not be comparatively modest in both extent and duration. Nor, needless to say, will all industries be affected alike. Our appraisal of first quarter prospects of principal industrial lines, together with rails and utilities, follows.

BUILDING—That building activity increased at all in 1939 was due entirely to the sharp expansion that occurred in residential construction, minor declines having been recorded in the non-residential and en-

Courtesy Bethlehem Steel Co.

gineering categories. An important influence on overall building totals has been the decline in PWA contracts.

The outlook for 1940 is for a well maintained level of activity but nothing even faintly resembling a boom. Commercial construction, which has been expanding in recent months in reflection of general business recovery, may experience some decline in the early months of the year though it is expected that this will be held to a minimum. The rate of increase in residential building should be somewhat smaller than in 1939 but the prospect of fewer vacancies and higher rents are favorable factors offsetting the moderate increase in construction costs that has occurred over the past twelve months. Thanks to Mr. Arnold and his trust-busting squad, there need be little fear that costs will soon again get as far out of line as they did in the spring of 1937.

One of the most encouraging spots in the general building picture is utility construction. Increased outlays by the electric power companies may well provide the most important part of whatever increment there is in general building activity next year.

AUTOMOBILES AND ACCESSORIES—Total U. S. and Canadian output of cars and trucks in 1939 is estimated at about 3,730,000, an increase of roughly 40 per cent over 1938. Indications are that production next quarter will be in the neighborhood of 1,250,000 units and may run as high as 1,300,000; this would be an increase of from 17 to 22 per cent over the initial three months of 1939. Since perhaps as much as 75,000 to 100,000 units will represent strike postponed output of Chrysler, however, this rate of gain can scarcely be expected to continue much beyond the March quarter though it would be distinctly disappointing if the year as a whole were not to show an increase of at least 10 per cent.

Most constructive features of the near term outlook are the low level of dealer stocks, favorable consumer acceptance of 1940 models and current efforts of top union officials to do away with outlaw strikes and slow-downs that play so much havoc with production schedules. In the passenger car field, the war has had little net effect on sales; the European market has been greatly reduced but markets elsewhere have expanded. To the truck makers, the war is something of a windfall.

The parts and accessories concerns will, of course, share directly in any improvement that is in store for the motor makers. But many of the former also have an important and growing stake in the booming aircraft manufacturing industry. Concerns like Thompson Products and Bendix are almost certain to see their revenues from the latter source appreciably enhanced over the near and longer term future.

Similarly, fortunes of the tire and rubber companies are likewise closely tied up with those of the motor industry though, in this instance, costs and prices may conceivably present something of a problem. The recent tire price cut initiated by Goodyear and followed by the rest of the trade had little meaning as it was simply a revision of list quotations to conform with actual realized prices of the past several months. If, however, cotton and rubber continue upward, a fairly general profit squeeze within the next couple of months can only be avoided by means of an advance in finished product prices.

STEEL—After reaching a peak rate of over 94 per cent of capacity, steel operations have lately been backing away from this level to recent figures around 90. There has been a moderate decline in new business and scrap prices have been edging away from their highs of some weeks ago.

A few points one way or the other at current operating levels, however, makes little difference as regards earnings and probably greater significance attaches to the fact that the industry has now worked off about all of the low-price business booked last summer and is thus realizing a somewhat better per ton return than it was of a couple of months ago.

Output for 1939 as a whole is estimated at more than 46,500,000 tons, an increase of approximately 65 per cent over 1938. Some extension of the recent moderate downtrend in output (seasonally adjusted) is looked for through most or all of next quarter, barring, of course, a sudden influx of war orders which thus far have contributed unimportantly to the industry's prosperity. It is by no means inconceivable, however, that 1940 may prove a bigger steel year than 1937. Though the automobile and building industries may not match their takings of three years ago, the machinery, can, railroad and shipbuilding companies bid fair to far surpass their 1937 purchases.

NON-FERROUS METALS—This group was one of the most spectacular marketwise with the outbreak of war and, after its initial run-up, one of the most disappointing since. There are a number of explanations.

First, the Allied countries are making every effort to supply their war needs from their own empire sources. France has contracted for some South American copper, but not in amounts sufficient to provide producers there with a bonanza. More recently, domestic copper prices in the "outside" market have been receding from their top levels of a few weeks ago thus pretty well dashing hopes, for the time being at least, of higher official prices.

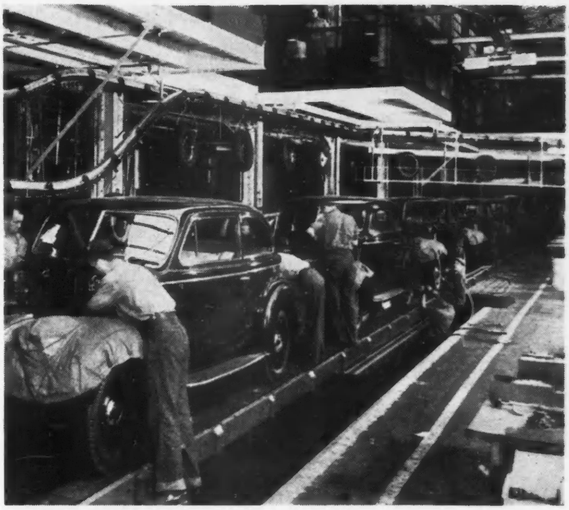
Both lead and zinc quotations, moreover, have been under some pressure as a result of Mexican imports

which are economically feasible at current price levels despite the duty. Pending an intensification of war demand, prospects for the non-ferrous metal producers next quarter, while not discouraging, are no better than those of industry at large. Production should be maintained fairly close to present levels while earnings are not expected to fall far short of figures for the current period.

RAILS & UTILITIES—When carloadings reached their seasonal peak of 861,198 last October they had completed a rise that was the sharpest and most spectacular on record. Even more encouraging is the extent to which gains have since been maintained despite the usual seasonal factors tending to reduce traffic at this time of year. What this boils down to in dollars and cents is that the $33,000,000 net loss of the nation's 139 Class I carriers in the first nine months of 1939 will be converted into a profit of about $100,000,000 for the year as a whole as contrasted with a deficit of $123,000,000 in 1938. Some further advance, after adjustment for seasonal, is probable next quarter but, from a longer range viewpoint, the rails are still far from being out of the woods.

Electric power output, which has been moving into new high ground almost every week, is in all likelihood destined to set still bigger and better records in 1940 though it is by no means certain that this will be achieved in the March quarter. As it has been right along, the utility industry's prime problem remains one of politics and, for this reason, it *may* end 1940 in a radically improved position. Power demand is expected to continue to expand at a much more gradual rate than in the 'twenties and there will always be pressure from local rate making bodies. Nevertheless, as Wendell Willkie puts it, "life may begin in '40."

Courtesy Westinghouse



Courtesy General Motors

EQUIPMENTS—Freight cars now on order, numbering more than 36,000 units, are the largest since the summer of 1937. Steam locomotive buying has not kept pace but the rail equipment industry nonetheless boasts a backlog sufficient to keep most manufacturers busy until late spring. Unless new buying evaporates more rapidly than seems likely, there will be little easing of output next quarter. Armament business has not developed on a noteworthy scale as yet but this is an important potential source of revenue should the sitdown war become war in earnest.

The electrical equipment companies have been among the more outstanding beneficiaries of the autumn trade advance, some units achieving new high sales volumes. Unfilled orders are generally substantial and a comparatively well maintained rate of production in the first three months of 1940 seems indicated. Estimates of utility construction budgets, ranging all the way from $550,000,000 to $700,000,000 augur well for producers of heavy equipment while higher consumer purchasing power should aid the household appliance makers.

Influences bearing on the outlook for the farm equipments are mixed in character. Hog and cattle prices are down but increased slaughtering plus somewhat higher Government benefit payments are offsetting factors. The drought has taken a severe toll in the west and, from the standpoint of total farm income, pretty well negates the effects of recent sharp advances in grain prices, especially wheat. While the problem of providing revenues for farm payments next year remains unsolved to date there is little doubt, particularly since 1940 is an election year, that a way will be found. Near term prospects of the implement companies remain fair to middling.

Directly affected by the war to a greater extent than any other industrial group except the motion pictures, the office equipment concerns are finding domestic sales gains offset in varying degrees by the partial loss of overseas business which in some cases normally accounts for more than a third of total revenues. This quarter's sales were probably up about 15 per cent from a year earlier but the rate of gain will probably be narrowed next quarter. Pending devel- (*Please turn to page* 376)

A Flexible Investment Program for the New Year

— For Dependable Income
— For Income and Appreciation

BY J. S. WILLIAMS

Unpredictable at any time, the future and the many events which it holds is paradoxically the most important single factor shaping a soundly conceived investment program. When an investor places his capital in a bond, a preferred stock or common stock, consciously or otherwise his choice is a tacit expression of confidence in the ability of that particular company to meet all of its obligations and earn enough to pay dividends to preferred and common shareholders. Presumably also it is a company with a proven ability to cope with the many problems and difficulties which arose in the past, and with a background of progress and foresight sufficiently impressive to warrant confidence in its continued ability to do so in the future.

Withal, however, the investor can never be certain that some new and more formidable problem will not materialize in the future to menace his capital and income. Proper diversification of his investments to include a representative group of industries and companies, while vital as far as it goes, is not a complete safeguard against the unforeseen. As a matter of fact there is no single safeguard, or combination of protective measures, which would guarantee complete investment immunity from any and all economic adversities to come. This fact, however, is hardly a valid reason why the investor should not utilize fully all of the available protective devices—limited though they may be.

Discriminate selectivity and well rounded diversification are cardinal principles of sound investment practice and the methods of their application are more or less familiar to most investors. There is also another one, however, which is not as widely used. Certainly it is not employed to the extent which its importance merits. It is the factor of flexibility.

Flexibility in an investment program may be achieved in several ways. But to a large degree the efficiency of this factor depends upon the investor himself.

Many investors are prone to acquire certain habits in the management of their securities—and most of these habits are the type which could readily lead into difficulties. One of the commonest of these is the habit of never selling a bond or stock, once it has been acquired. Another is the reluctance to sell any issue, if to do so means selling at a loss. Investors frequently become "wedded" to a particular stock, refusing to part with it, come hell and high water. Then there is the bargain hunter, not the investor who bides his time and waits until price levels appear lower than warranted but the individual who is always looking for "sleepers" and usually ends up by owning a lot of worthless securities. Another frequent habit is that of placing buying orders just under the market, or selling orders just above the mar-

Selected Issues for Dependable Income

Bonds

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Call Price	Current Yield
Chicago Union Sta. 3¾'s, 1963	107	110	99½	108	3.50
Columbia Gas & Elec. 5's, 1952	103½	104	92½	103	4.80
National Steel 3's, 1965	101½	103⅞	92½	104	2.90
N. Y. Steam 3½'s, 1963	105	107¼	94½	105	3.33
Florida Pwr. 4's, 1966	98	99	89¾	105	4.10
Union Oil of Cal. 3's, 1959	101½	102⅜	99½	105	2.94

Preferred Stocks

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Call Price	Current Yield
Firestone Tire 6%	103	105½	99¼	105	5.80
Pub. Serv. of N. J. 5%	112	114⅜	101½	NC	4.50
Diamond Match $1.50	43	44⅞	36¾	NC	3.40
U. S. Tobacco $1.75	45	46¾	39	NC	3.90
Pac. Gas & Elec. $1.50	34	35½	28½	NC	4.40
Commercial Credit 4¼%	103	109⅝	98½	110	4.13

NC—Non-callable.

Common Stocks

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Divs. Paid 1939	Yield
Melville Shoe	70	72	46	4.00	5.70
J. C. Penney	91	94¾	74	5.00*	5.50
Sterling Products	79	79¾	65	3.80	4.80
General Foods	47	47⅞	36⅝	2.25*	4.80
S. H. Kress	28	29¾	23¾	1.60	5.70
El Paso Natural Gas	41	42¾	28	2.00	4.90
Commonwealth Edison	31	31⅜	25⅝	1.80	5.80
May Dept. Stores	51	53¾	40¾	3.00	5.90
Jewel Tea	83	85	68	6.00*	7.20
J. J. Newberry	41	42	32	2.00	4.90

*—Including extras.

ket, thus risking the possible loss of a good buying or selling opportunity by the scant margin of ⅛ of a point.

All of these are habits which may turn out to be costly. All of them deprive an investment program of essential flexibility. They are habits which the investor would do well to overcome. The *idea fixe* has no place in a well conceived investment program.

Further contributing to investment flexibility is the policy of retaining some portion of one's capital in cash, or high grade short term bonds, Treasury notes or Government-guaranteed issues. Such funds constitute a reserve against unforeseen contingencies, alleviating the necessity of emergency liquidation of securities. Moreover, it is at least a moot question whether anyone's capital should be 100 per cent invested at *any* time. Income considerations may require that an investor utilize all of his capital to the best advantage but the point seems hardly debatable in the case of a program emphasizing capital appreciation.

Confronted with the many uncertainties evoked by the war, now more than ever is it vitally important to place major investment emphasis on quality, regardless of whether the mediums are bonds, preferred stocks or common stocks. To reduce the possibility of unforeseen complications, all issues, either held or purchased, should be submitted to a test question, "Will this company be affected by the war, and to what extent." This test applies particularly to common stocks.

War, a Complicating Factor

A year ago when war was still a threat, public interest became aroused in the so-called war baby type of common stock. Two of the most favored war baby issues were International Nickel and Climax Molybdenum, a logical choice at that time for both companies not only produced vital war materials but in their respective fields they were virtual monopolies. With war an actuality, however, both issues, owing to unforeseen restrictions placed upon the operations of these companies, have turned out to be duds, at least so far as their market action is concerned. A year ago Climax was selling at 59, International Nickel at 56. Today they are 40 and 37 respectively. To acquire and hold any stock issue solely on its possibilities as a war issue must be placed in the category of hazardous speculation.

By the same token the issues of companies normally transacting a large European business, or having a sizable investment in plants located abroad should be avoided. Foreign exchange restrictions and severe trade dislocations resulting from the war may result in a serious drop in earnings, to say nothing of the possibility of losses through damage from war activities.

While conceding the fallacy of attempting to anticipate the future in current investment undertakings, without making substantial allowance for new and unforeseen events, nevertheless many investors are certain to succumb to the lure of precedent. Precedent, although never to be trusted implicitly is a time worn investment device used for the purpose of projecting future probabilities. In the current setting the precedent of the first World War is still within the memory of many. But as a pattern of the present war and its economic and investment effects it has not as yet proven to be a dependable guide post of today's events.

Selected Issues for Income and Capital Appreciation

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Earned Per Share 1st 9 Mos. 1938	Earned Per Share 1st 9 Mos. 1939	Divs. Paid 1939
Chrysler	89	94⅝	53⅝	1.53	7.22	5.00
General Motors	54	56¾	36⅜	.73	2.39	3.50
Bendix Aviation	30	33¾	16⅜	d .19	1.47	1.50
Electric Auto-Lite	37	40⅝	22¼	.01	3.21	3.00
Inland Steel	86	98¾	67	2.00	3.92	4.00
Bethlehem Steel	83	100	50¼	d1.26	1.89	1.50
Westinghouse Electric	117	121	82½	2.32	3.40	3.50
International Harvester	61	71⅝	45⅞	NF	NF	2.00
Niles-Bement-Pond	65	76	41¾	NF	NF	2.00
American Smelting	51	63	35½	1.53(a)	1.68(a)	3.00
United Aircraft	46	51	31	1.40	2.18	2.00
Glenn L. Martin	39	45⅜	26½	2.29	1.39	1.00
United States Rubber	40	52¾	31¼	d1.81(a)	1.18(a)	None
Caterpillar Tractor	55	64½	38½	1.03(b)	2.27	2.00
United States Gypsum	86	113	65¼	2.83	4.46	4.00
Johns Manville	74	105	59	.55	2.69	2.75
Monsanto Chemical	107	114¾	85¾	1.36	2.56	3.00
Du Pont	179	188½	126¼	2.23	5.09	7.00
Montgomery Ward	55	57¾	40⅛	NF	NF	2.50
Sun Oil	56	66	45¾	NF	NF	1.00

d—Deficit. NF—Not available. (a)—6 months to June 30. (b)—10 months to October 31.

At the outbreak of the war last September, investors and traders hastened to anticipate war's inflationary impetus by selling public utility, food, gold mining and other stock groups identified with industries handicapped by the absence of a flexible price structure for the commodities which they sold and the services which they rendered. The shift was to the metal, steel, automobile, chemical, machinery and equipment industries. The subsequent verdict of the market indicates that for the most part such anticipatory switching was premature and definitely unprofitable in not a few instances.

Time may prove that such switches were entirely justified, and only ill-timed. The experience of these investors, however, serves to illustrate the point that history does not always repeat. War is both inflationary and deflationary and in that order. Beyond that it may prove wise to look upon the precedents of 1914-1918 with a healthy skepticism.

Accompanying this discussion is a group of selected bonds, preferred stocks and common stocks chosen primarily for the investor requiring a fair and dependable income. The various issues comprising this list are of seasoned investment quality and in the case of the preferred and common stocks dividends have the backing of adequate earning power and the assurance born of a long record of continuous payments, even under general conditions much less favorable than appear to be promised for 1940.

The second list is comprised of selected common stocks representing a group of established companies identified for the most part with industries which have much to gain in a period of further business recovery of normal proportions—even without the as yet nebulous possibility of war impetus. If the promise for next year is borne out, these are the type of common stocks which could register substantial price appreciation.

Charles Phelps Cashing

The 1940 Congress

What It Can and Can Not Accomplish for Business in a Presidential Year

BY E. K. T.

CONGRESS comes back with its calendar, its factions, and its campaign fervor all in the same condition as they were when the regular session ended in August. And predictions that this will be a short and harmonious session are little more than wishful thinking.

The members want to get through early and do their own campaigning, but a stronger influence will be the desire to use the session to build up and crystallize issues for the Presidential campaign next fall, and this means that consideration of every bill will he influenced by party politics to a greater extent than last year. The Republican minorities, still gloating over their last session victories in blocking much New Deal legislation, will redouble their efforts to put the Administration on the spot and to make a campaign issue of every important measure, and the conservative Democrats may be expected to continue their stand against some of the more radical Administration proposals. These two groups, which together are usually a majority, will not cooperate so closely as they have on past occasions, at least not openly, but they will be found on the same side of so many issues that it will be obvious that the Administration is not controlling Congress. Desire for the appearance of party harmony may temper the open opposition of anti-New Deal Democrats for a time, but the cooperative spirit developed by the special session on neutrality is only a thin veneer, and there is nothing to indicate that this group has dropped or compromised its determination to return the Democratic party to its traditional policies and swing it away from the influence of the extreme left-wingers.

A year ago Roosevelt told Congress there would be no retreat from New Deal principles but that the machinery might be improved a bit here and there. The session ended without any retreat and without much improvement but with the Administration on the point of serious defeats. The same measures all remain on the calendar and unless the Administration drops them it will have to be prepared for fights as bitter as those of last August.

The spend-lend bill remains on the House calendar despite that body's refusal to consider it last session,

and Roosevelt can't drop it without losing face. The same is true of bills to amend the Wage-Hour Act, double the slum-clearance program of USHA, and strengthen and centralize the powers of the Home Loan Bank Board, all of which brought major rebellions. Each one of these measures involves principles of the functions of the Federal Government, so each makes good campaign material and will be treated as such. Only one issue has been disposed of—neutrality—but a number of amendments may be proposed and the Republicans intend to make capital out of Roosevelt's alleged desire to help the Allies and will claim that only their constant vigilance has kept him from taking unneutral steps which would get us into war.

Fiscal policy is both an immediate problem of Congress and a campaign issue. At the present rate the statutory debt limit will be reached in a year or so in spite of New Deal bookkeeping efforts to get around it temporarily, and Congress is in no mood to increase the limit right now. Realizing this, the President will try to pass the buck to Congress by submitting a curtailed budget which he expects Congress won't follow because most of the reductions will be on pet spending projects which mean votes back home. Both the President and Congress will talk economy but the result will not bring the budget any nearer a balance. An even larger item for national defense spending is in the cards, regardless of what happens on other funds.

At Washington the interlude of relative quiet is over and within a few days the spotlight will focus on the 1940 session of Congress. New legislative proposals of controversial nature will be studiously avoided by the Administration—but there is plenty of political dynamite in pending bills held over from the last session. Most of those turned down by Congress in 1939, including "spend-lend," will be turned down again. In the main it will be a Congress friendly to business, anxious to aid recovery in a Presidential election year, but up to its neck in party and factional politics.

The proposal for a new tax bill is still up in the air, and chances are slightly against the probability that one will be pressed. Roosevelt probably will suggest mildly that additional revenue would cut down the deficit but is not expected to offer a program. The House would like to carry out the Treasury's ideas for streamlining and simplifying the revenue laws but hesitates to open up the tax subject in a campaign year, especially since this would entail demands for greatly increased taxes to prevent swelling the debt.

Very little new legislation will be advanced by the Administration, no new business reforms, social experiments, nor economic panaceas. Anything that is proposed will be in the guise of perfecting and completing existing programs, such as the talk of tying in public and private utilities to an interconnecting power grid. An exception may be Wallace's new plan for reviving processing taxes in disguise in order to keep farm benefit payments out of the budget, but the Administration is not yet committed to this idea. However, there are plenty of measures pending which will give Congress a chance to determine whether the New Deal is to be expanded or curtailed.

Among measures of this type and other important bills which are scheduled to come up sooner or later in the session are the following:

Reciprocal trade agreements: law authorizing these expires in June and the Administration will ask for an extension. Most Republicans and many Democrats oppose this. If the going looks too tough this may be dropped in hopes it could be revived in the next Congress, and Republicans might prefer this to disposing of the issue before the campaign, but there is a movement afoot to try immediate action on amending the law to restrict the type of agreements which may be made and to require Senate ratification.

Farm legislation: Whether or not processing taxes of some sort are adopted, a lot of farm bills will be up for discussion, but more for the purpose of making campaign material than for helping the farmers. Both parties will make a strong bid for farm support, but neither one is yet quite sure what sort of program will have the best all-round appeal, so much jockeying is in prospect.

Relief: The WPA investigation will bring disclosures which will prevent a deficiency appropriation for the balance of the year and will probably result in a complete revision of the Federal relief system calling for more state cooperation and a Federal bi-partisan board restricted against political manipulations. Federal relief appropriations won't be eliminated but will be held down to the lowest figure in years.

Labor: Wagner act may be basically revised, but chances are at least even that Administration can forestall this by acting on current revelations of NLRB investigation in revising personnel and procedure of the Board. La Follette civil liberties bill to curb anti-union practices of employers has slight chance, so has bill to put more teeth in Walsh-Healey Government contracts act.

Wage-Hour: Measures to liberalize this law will be pressed in both House and Senate and probably will be enacted over Administration protests. Appropriations for its enforcement may be far under the request.

Utilities: TVA is in for trouble both as to appropriations and proposals to force it to pay state and local taxes. There will be no appropriations to subsidize municipalities constructing public power plants to compete with private utilities, but an entering wedge may be sought for a Government-owned grid system. Congress will be much less anti-utility than previously.

Social security: New Dealers would like to expand the system to cover workers now exempt, and McNutt could make good campaign material of this, but neither the Administration nor Congress shows much interest now, and chances are pretty slim. Townsend and other old age pension plans are considered dead for this Congress. A proposal for Government sale of annuity insurance to supplement social security benefits has been kicking around but won't be pressed.

Banking and finance: Senate investigation to recommend monetary control policies and revise banking laws is so slow in starting that no legislative program will be

evolved in time for enactment. Unorthodox monetary bills, such as commodity dollar, are pending but won't be considered, but there is a possibility that a revision of the silver purchase policy will be forced.

Foreign relations: In addition to reciprocal trade agreements and the European war situation, Congress will interest itself in foreign affairs by questioning the Administration's program of financial aid to South America, urging pressure on Mexico to respect American rights, and probably cracking down on Japan when the commercial treaty expires in January.

Dies Committee: Investigation of alien influences will be continued even though some of its disclosures are highly embarrassing to the Administration.

Administrative law: Logan bill to make Federal bureaus follow definite rules of procedure is pending in both House and Senate and has strong support despite death of its author, and chances are fair it will get through although Administration is fighting it under cover.

Other bills of less political importance which have passed one or the other House and on which action is expected include: revision of the Interstate Commerce Act; general bankruptcy act; wool labeling; prohibition of movie block booking; control of stream pollution; new river and harbor program; revision of trade mark and patent laws; expansion of the farm tenant loans program; expansion of slum clearance and home lending programs.

New measures on which at least committee action will be demanded include: chain store taxes; Federal credit for small businesses; Federal control of oil conservation; veterans' pensions; crop insurance; amendments to the merchant marine laws; and nobody knows how many more of the thousands of bills introduced.

CAPITOL BRIEFS

Farm Credit Administration shake-up, placing it in complete control of Wallace and his henchmen, is purely political. New Dealers thought F C A not liberal enough with farm credit and too hardboiled in foreclosures (though it was plenty lax from a banker viewpoint). Now F C A loans will go only to farmers who play ball with A A A, and its loans will be more of the Farm Security's "social rehabilitation" type. There are also campaign shenanigans, not the least of which is that F C A borrowers and agents will be under political obligations. Outlook is for still softer agricultural credit. One by-product may be less wet-nursing of farmer co-ops which has been an F H A is in a jam. Its long-term in-crowd would rather do things for the farmers than have them solve their own problems.

Wide World Photo

Sec. of Agriculture Wallace whose certificate plan is the administration's latest scheme for financing farm benfiet payments.

Small house lending program of F H A is in a jam. Its long-term insured mortgage program is sound, but because of political pressure it has been trying to popularize a looser form of partially-guaranteed bank loan up to $2,500 for new construction. Many banks were skeptical, and the program lagged. Now F H A has got R F C to agree to buy these loans from banks needing cash, but to get cagey Jesse Jones' approval it had to make many changes and impose more restrictions than it likes to admit, restrictions which will prevent the plan from being as widely used as New Dealers want.

State trade barrier study of Commerce Department, boomed by Hopkins as swell way to aid business, quickly ran into trouble and is being greatly curtailed. It was discovered many business men consider the term includes state laws on merchandising, price maintenance, below-cost sales, etc., and this was too hot a potato to handle, so study will be confined to physical barriers such as trucking restrictions and taxes on out-of-state goods.

Commerce Department is pitiful sight these days. Hopkins is very ill and unable to do much of anything; old-time officials are largely ignored; and the "spark plug boys" brought in to jazz things up are adding to confusion without producing any worth-while ideas. Administration planned to have Commerce Dept. do a whole lot of things for business to offset criticism that New Deal is anti-business, but it hasn't worked out. Department's attempt to mediate anti-trust cases has been a dud so far; Justice Dept. has held up a couple of indictments to let Commerce try to work out consent decrees but results have been only series of conferences and costly statistical studies.

Anti-trust drive will be pushed hard by Thurman Arnold if Congress gives him the money; otherwise he'll quit. The building drive has had a "good press" and encouraged him greatly; he anticipates same result from forthcoming patent cases in many industries. His ambitious plan for controling prices through anti-trust laws in cooperation with TNEC does not have administration support as yet but if he gets the funds and a free hand he could put it into effect anyway.

Trainload rate decision by I. C. C. is of much importance to industries making bulk shipments. Heretofore I. C. C. has vigorously opposed such concessions to shippers, but now reverses itself to allow freer competition.

We Are Paying a Goodly Part of the Cost of the War by Swapping Real Wealth for Unneeded Foreign Gold

Wealth for Gold

BY JOHN D. C. WELDON

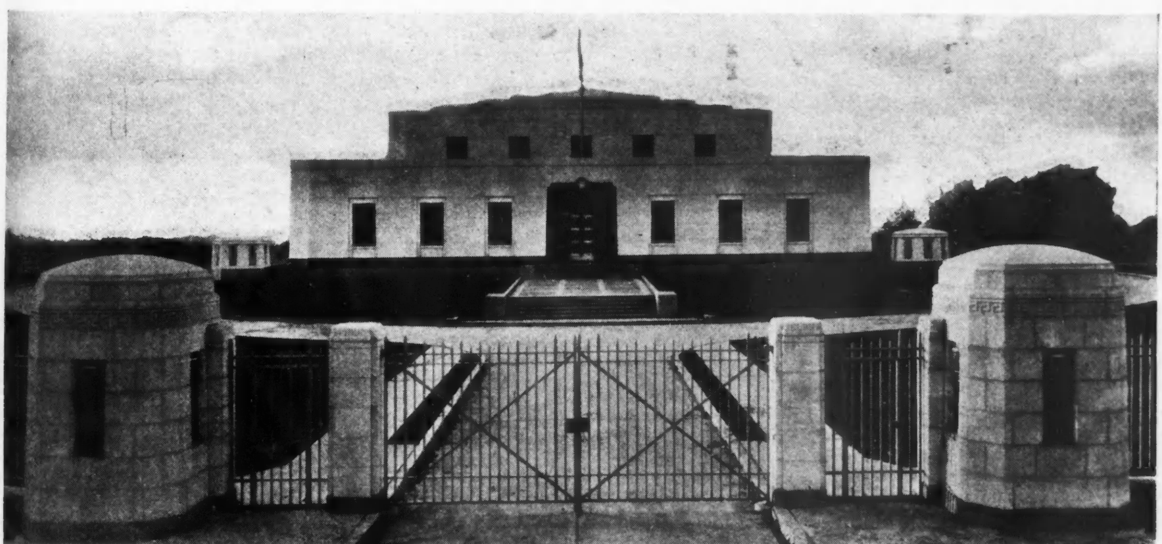
THE United States derives considerable quiet comfort from its export balance—the excess of goods sold abroad over those bought. With any breaks at all it hopes to increase the "favorable balance" in the coming year by selling to the nations that formerly bought from the belligerents. Where a billion dollars more international sales than purchases satisfied us in 1938, there is a chance that the figure can be doubled in 1940.

Any business man recognizes the basic sign of solvency, when cash intake consistently exceeds outgo. And in this war we are making sure that transactions are for cash. We rang up something like ten billions in sales on the old-fashioned cash registers in 1915-1918, but while the credit department was collecting in full, the board of directors was arranging some long-term loans that have since turned out to be perpetuals. We know now how expensive wars are and prefer to let someone else pay for this one.

Sales of airplanes or cotton, machine tools or semi-finished steel are for cash on the barrel-head today. Bending over backward, some plane manufacturers are making the Allies put up the capital for plant expansion, to be repaid out of future orders. Uncle Sam was burnt at a tender age and his scars still embarrass him. Whatever his sympathies in the matter the I. O. U.'s are out.

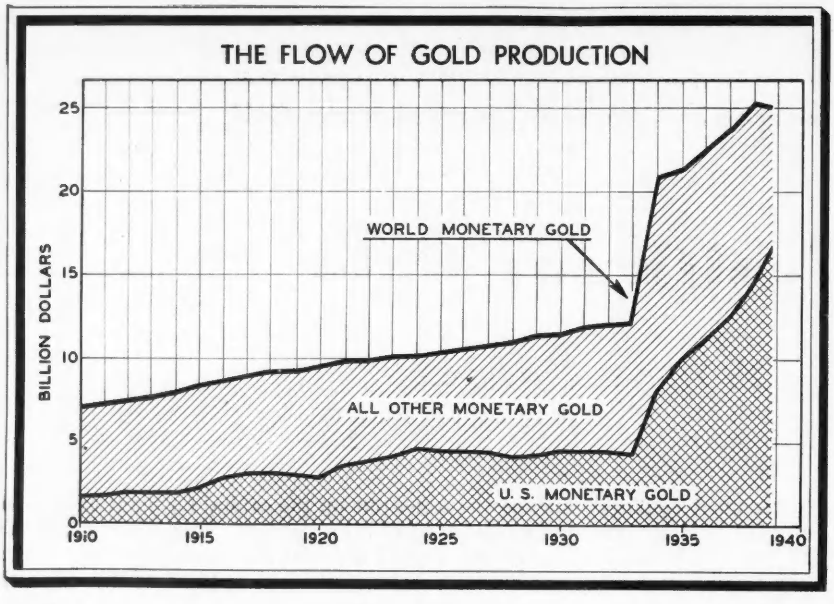
It is realized, of course, that there are not sufficient dollars scattered throughout the world to pay for the continuous difference between exports and imports. Yet the American firm which sells abroad gets paid in dollars. Foreigners have not until recently used their assets in this country to pay for their purchases. There must be something in the flow between the United States and the rest of the world to balance the export balance.

Instead of I. O. U.'s, we are now taking gold. In each of the past six years, except 1936, which was close, we have taken in more than total world production. Recently our additions have been running several times the world output. These imports are not grouped with merchandise, because gold is classically either the equivalent of money or the superior of money. It would be ridiculous to call a bale of dollar bills an import and



Ewing Galloway

Fort Knox, the re-burial spot of billions of dollars of the world's gold.



apparently even more ridiculous to apply the term to a bar of the metal which indirectly supports the values of the currency. *If this is wrong, then the export balance has actually been a deficit on foreign trade account.*

The United States is not on the gold standard, yet it maintains the only active, continuous, unchanging and unlimited bid for the metal in the world today. Production of a mine in South Africa may make many travels in its youth, most likely seeing something of London on its journeys, but when it settles down it is in Fort Knox or one of this Government's other depositaries. Dug out of the ground at great cost in one part of the world, it is transported carefully and expensively to the point where it is again buried. We give two tons of steel scrap for an ounce of gold and somehow or other consider the full value of the transaction as net gain in our trading.

Gold will always have a value, as certainly as steel and possibly more so. Nevertheless, it is possible to pay too much for any commodity in terms of any other. We raised our bid for gold back in 1934 and since then have been flooded with it, with the implication that our offer has been more attractive than necessary. Not only have the mines of the world broken all records in getting it above ground, but the hoardings of centuries have changed hands because of the values we have made exchangeable for an ounce of gold.

If we offered to pay $10 a pound for silk in unlimited quantities, it would be very clear that we were paying for the conquest of China. The same type of bid at $2 or $3 an ounce for silver would make investments out of Mexican bonds. Our subsidy to the gold-producing nations is equally definite, even though we may have the best of reasons for wishing to help in their current plight. We are without the slightest doubt paying too much—considered either in dollars or in the goods we sell for dollars—to the producers of gold. Brushing aside any theoretical proofs, the fact is that our bid is being hit too often and too heavily to leave any confidence that it is a wise one.

Until 1934 this country considered gold worth $20.67 an ounce. When the price was raised to $35.00 it was in the hope that other prices would move in the same ratio. That hope has been disappointed, but the price of gold stays up because it is set by law. A dollar will buy considerably more of any commodity you care to mention than it would a decade ago—but an ounce of gold will buy 69 per cent more dollars. No wonder we can have the world's gold supply!

Our contribution to this war has evidently been made before it started, although further installments may be paid. Considering only the bonus of close to $15 per ounce that we pay on gold, the premium has been in the neighborhood of $4,000,000,000. The better part of this has gone to the Allies. When we sell them a plane and make a 20 per cent profit, we might remember that they are in turn selling us gold and making a 69 per cent profit over what the metal used to bring.

The story of a transaction in the midst of the Florida real estate boom cannot be resisted here, although it has seen some hard wear. The principal character had bought a thoroughbred dog for $3,000 and was boasting to a friend that he had sold the animal for $10,000 within a month.

"You actually got $10,000 for that mongrel?"

"Sure did."

"All cash?"

"Well....... no. I had to take two $5,000 cats in exchange."

The United States has taken so many billions of gold in exchange for its valuable and useful goods that it has established what may prove to be the most unwilling corner in the world. Europeans have long discussed the humorous possibilities in selling us all their gold and then taking to monetary standards which would entirely

A Trickle of Merchandise and a Flood of Gold

	Balance of Merchandise Exports (000 omitted)	Balance of Gold Imports (000 omitted)
1934	$477,745	$1,133,912
1935	235,389	1,739,019
1936	33,386	1,116,584
1937	265,499	1,585,503
1938	1,134,012	1,973,569
1939 (ten months)	681,192	2,954,998
Total	$2,827,223	$10,503,585

omit any link to that metal. It would be the trick of ten centuries if they could actually dump it all in our laps and then lose interest in it.

The chances are that any such coup will take a generation at least to bring off. Fortunately, not every one is completely up on current events and the possibilities of the future, and the majority of people in the world have been too thoroughly educated to the value of gold to believe those who tell them that it is suddenly outmoded as a backer of currencies and a means of international exchange. Especially in times when no nation trusts any other more than is absolutely necessary, international payments must be made in a medium which enjoys universal respect, and there is no other with equal qualifications.

The essential difficulty so far as the United States is concerned lies in outgrowing the notion that an export balance is a sign of national economic health and success, while an import balance is a step on the road to bankruptcy. There were times in the past—so frequent as almost to be called continuous—when the thing this country needed most of all was money. It had the coal and iron, copper and wheat, but none of these were so important as the capital with which to build steel mills and railroads and haul the goods to the customers. Under those circumstances it would have been hard to name any price for gold that could make it a bad bargain.

Today the situation is entirely different. We are exchanging resources we know are useful to us for a metal with which we are already oversupplied, for which we pay a staggering premium, and with a value inflated by our own bidding. In 1913 we held less than a quarter of the world's supply of monetary gold, in 1929 about three-eights, in 1936 a half, and now our share is rapidly approaching two-thirds. The greatest wave of prosperity this country ever had was supported with a monetary gold stock of less than $4.6 billions, as compared with present holdings of over $17 billions. More gold has been added to our stocks in the last five years than had been accumulated in monetary supplies by the world in its whole history up to the beginning of the present century.

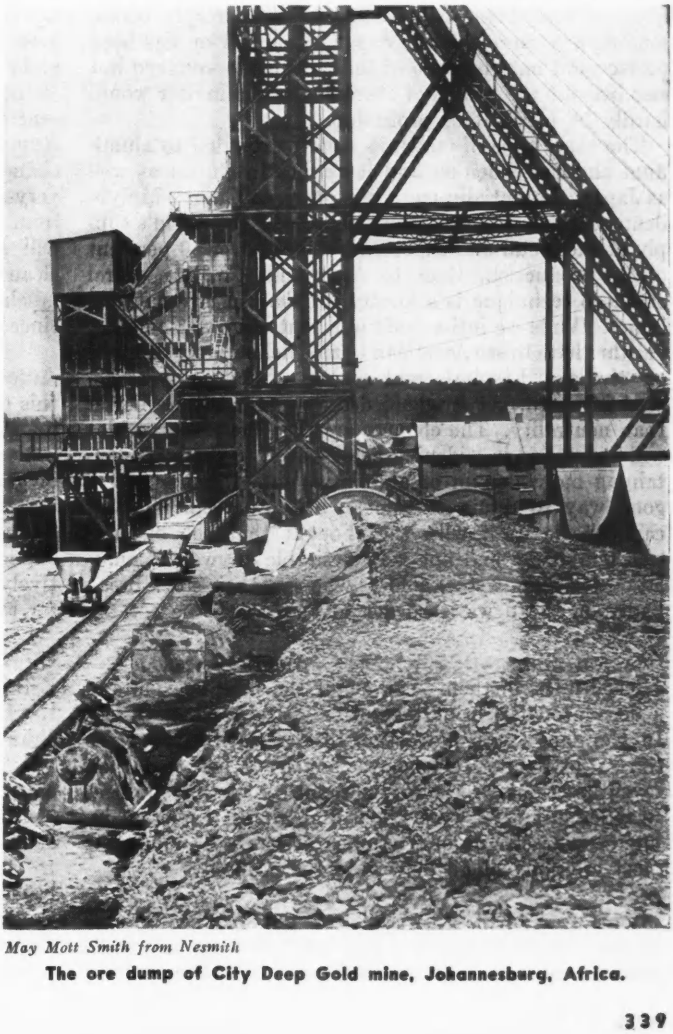
So far out of proportion to any conceivable needs has our gold supply become that one could easily support the argument that it is a positive menace rather than an asset, because of the inflation it is capable of fostering. And there is also the long term possibility that the rest of the world can learn to get along without the metal, allowing its true value to sink into correspondence with its industrial usefulness. In that event we should have a staggering capital loss to be accepted on our stocks of the metal.

But the problem is serious enough when considered simply as a case of overpayment for a non-essential. Here is one way to look at it. American Tobacco B sold at about the same price in 1933 as it does today, and paid the same dividend. The American citizen (who is not, by the way, allowed to own gold) can buy the same number of shares with his dollars as he could six years ago. The foreigner with a gold hoard, however, or the one with a mine, can make a much better deal. In 1933 he could have exchanged four ounces of gold for a share of Tobacco B. Today he can get the same stock for two and a third ounces of the metal. Or for four ounces of gold he can buy 1.7 shares of the stock.

Besides the larger capital assets acquired, the foreigner receives an income almost 70 per cent larger. Instead of one share paying $5 annually in exchange for his four ounces of gold, he gets 1.7 shares returning $8.50 annually. Even that is not the whole story. His own currency is very likely to have depreciated in terms of the dollar. By the time he gets the dollar dividends back in his own country, they are increased, not 70 per cent only, but possibly several times that amount. If the price level in his own country has not kept up with its currency depreciation he may profit to the tune of two or three hundred per cent.

In this case we exchange a part of the ownership of one of our big enterprises for a mite of metal which we promptly bury. The gold yields no return, costs money to care for it, but on the stock we gave for it we will pay dividends indefinitely. Furthermore, we offer tremendously more attractive terms on the transaction than we did in 1933!

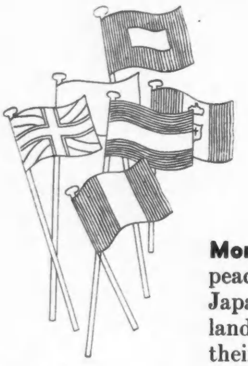
Among possible cures, three (*Please turn to page* 379)



May Mott Smith from Nesmith

The ore dump of City Deep Gold mine, Johannesburg, Africa.

On the Economic War Fronts



Interpreting the News Behind the News for the Business Man and the Investor

Moral Embargo. Among the peaceful nations of the world are Japan and China, Russia and Finland. While we understand that their serenity is not all that it should be, we are officially unaware that any of them are at war. Planes, bombs, and other instruments of persuasion may be freely shipped to them under the law. The State Department, however, long since "requested" that plane manufacturers think deeply before sending any more ships to Japan. Cooperation has been perfect, not only because of the sentiments involved but also because the results of obstinacy in the matter would hardly be pleasant or profitable.

The same type of embargo is now extended to aluminum and molybdenum and it applies to Russia as well as Japan. Potentially more important to Climax Molybdenum, which produces seven-eighths of the world's supply of the metal and exported last year over 80 per cent of its production, than to Aluminum Co., the moral embargo technique is a knotty problem in international ethics. While we insist upon our neutrality we somehow or other hate to see American bombs deliberately dropped on civilians, hospitals and schools. Pacifism is a discredited word, yet it would describe our attitude better than neutrality. The chances are that the embargo idea will be applied in widening fields—even to products containing molybdenum or aluminum, for example. Not a good way to retain customers, but American industry can console itself with the thought that the business was temporary and not very desirable anyway. Consolation for Climax stockholders who saw their stock break badly on the news is harder to locate.

German Railroad Efficiency. American railroads—240.000 miles of them—can count the fatal accidents of a decade on the front toes of Chessie the C. & O. cat. In Germany, with a fraction of the territory and ten times the reputed efficiency, they have just had their seventh serious wreck in four months. In this one near Brandenburg, 132 were killed and almost as many injured. War strains on German carriers are among the most crippling of all defects in the economy.

Planes to Finns. Finland has a tiny balance of cash in the United States, is using most of it to buy sadly needed airplanes. The first order for 40 Brewster F2A1 fighters amounts to about $2,700,000, leaving not much more than a million left for other arms. The $10,000,000 already advanced by this country cannot be used for military purposes, nor can the larger loan which is reported to be on the fire. Finland's army is probably of more use to us than our own at the moment, but by the time we could get around to approving free help with defensive arms the cause might be lost.

Currency Bargaining. A victory difficult to assay has been won by the Reich in persuading Rumania to set a higher value on marks in terms of her own currency. It increases Germany's buying power by nearly 20 per cent in the Balkan oil territory, and it raises the prices Rumania will pay for German goods received in exchange. On the other hand, the Nazis are being charged very stiff prices for any of the materials they need badly from Rumania, with a good chance that Allied bidding will increase their enemy's costs further. It is good, clean economic warfare for France and England to pay much higher prices for Rumanian oil than for American, since they are cutting down the supply to Germany.

Auto Exports. If there were an automobile maker in this country entirely dependent upon foreign customers its stock would be a poor investment. Most of the nations of Europe impose severe restrictions on the use of gasoline, and the price is sky-high. Trucks are our best bet here. South America may buy autos but must buy dollars first. Australia is almost as bad as England. Japan has ruined the Asiatic market. Speaking relatively, South African gold is the only bonanza in sight for the motor exporters in the immediate future.

War Oddity. One can hardly be blamed for wondering if this war is what it seems to be. A correspondent of the Iron Age relates the story of a deal to ship iron from France to Belgium and coal in the other direction. Says he: "It is easily established that Belgium can neither consume this quantity of ores nor supply the 4,000,000 tons of coal. . . . The assumption is that most of the coal will come from Germany and the iron ore will go to Germany. . . . That there is also a not unimportant other trade (machinery, tools, implements, etc.) via Belgium between France and Germany has but recently been confirmed by Belgian sources." If this is true, the blockade between the United States and Germany is

more effective than that between the two belligerents. Perhaps we haven't yet the hang of what's going on.

International Markets. Steady strength on the London Stock Exchange has been accompanied by firmer action in all the capital markets of Europe, including Berlin. British industrials are only nominally below their levels of late August, while the domestic rails have held steadily above there and managed to move higher. Now that sterling and francs are firmly tied together, the quiet recovery in the pound applies to both currencies and to a number of others as well. Reuter's United Kingdom Commodity Index has moved up to 173, against 137 a year ago, pointing yet higher as English prices continue to rise in a war economy. In none of the markets mentioned, however, is there any sign of a situation completely out of control.

Keeping It in the Family. English firms which find themselves unable to make deliveries to Latin-America and elsewhere are trying to pass the business along to their Canadian cousins. First results are successful. The customers are willing because it keeps them in the area of depreciated currencies; the willingness of the Canadians is hampered only by their ability to turn out the necessary goods, what with the unusual demands from England and for their own use. But as an obstacle to American export ambitions it is probably temporary. New sales will be made on a strictly competitive basis.

Wide World Photo

No emotional background for war, but universal, poignant hunger for peace is visible in England, Germany and France. So finds J. D. Mooney, in charge of General Motors exports, home on the Atlantic clipper from a four-month tour of Europe.

Investment Ghosts. Serious reverses for the Soviet troops in Finland have raised old hopes of a monarchy again in Russia. Czarist bonds which have been selling for years on the Paris Bourse at a cent on the dollar or less have attracted some bidding in recent sessions. Rises have been microscopic in money, but run to impressive percentage figures. Considerable optimism is necessary nowadays to believe that any government in eastern Europe will remember its predecessor's debts.

Air Progress. German flyers have appeared with a new and advanced model of the Messerschmitt plane, reported capable of a 379-mile speed and mounting two cannons, in addition to four machine guns. The British are negotiating with Douglas Aircraft for a projected new attack bomber, a variation of a model Douglas is making for the French. A speed of 400 miles is claimed for it. Curtiss-Wright has a new pursuit ship using the most powerful engine—1,200 h.p.—ever installed in this type of military plane. It is called the Hawk 75 A-4, developed from the Hawk 75 which has been doing so well for the French over the Maginot line. It was in one of these earlier models that a test pilot set a power dive record of 575 miles an hour. Indications are that Allied equipment, with American help, is rapidly gaining a distinct edge in quality and catching up in quantity of planes.

Devious German Imports. Exports from this country to Germany during October amounted to a mere $39,000—and much good may the materials do them. But shipments to certain other nations gained enough to suggest that some were going indirectly into the Reich. To Russia we sent 362 per cent more in October than in September; to Sweden $16,727,000 against $8,695,000 in the previous month; to Switzerland $2,745,000 in October, $1,617,000 in September and $899,000 in August; to Norway $5,936,000 in October, $1,531,000 in August. Italy, too, became a suspiciously good customer. Germany undoubtedly has found it expensive dealing through these middlemen, and reports on November trade show a curtailment of the trend already, except in the case of Russia.

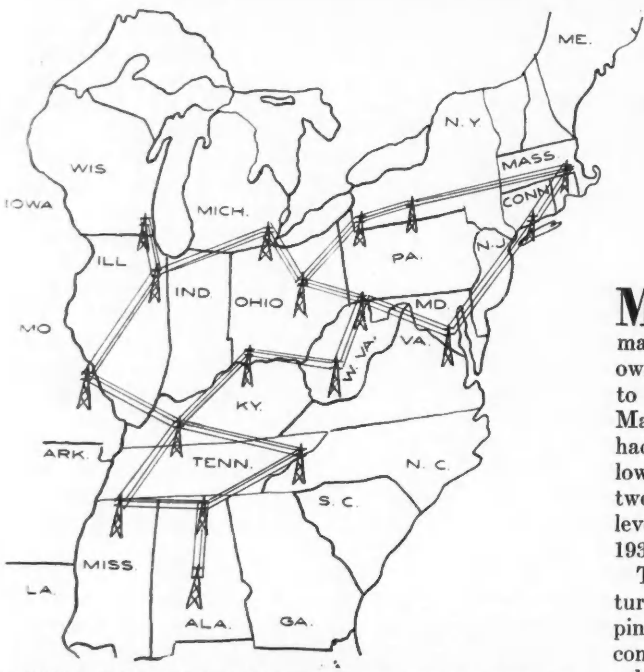
Armor—Sunburn. The Aluminum News-Letter, published by the Aluminum Co. of America, comments on the stories of miraculous new armor capable of stopping modern bullets: "A coat of aluminum armor light enough to be worn would have just about the protective effect of a heavy coat of sunburn." And furthermore, knighthood has definitely gone to seed.

Fuel Scarcity. Coal in this country is a problem in abundance. American mines can only hope that demand created by the industrial pickup will be aided by increased exports to South America now that other supplies are blocked. In England, our school books taught us, the possession of coal in practically unlimited quantities meant the island's main grasp on prosperity. Yet it is only within the last few days that rationing of the fuel has been ended, with a request for economy in private use. Reason—the English have built up a fairly impressive total of gasoline production from the output of their mines. Nothing like the Germans, of course, but here is the price followers of the Fuehrer pay: the ration for each household is 300 pounds of coal per month, which might amount to one ton annually; but one has to be lucky or influential to secure more than a fraction of that from the dealers whose stocks are being robbed to keep the war machine running.

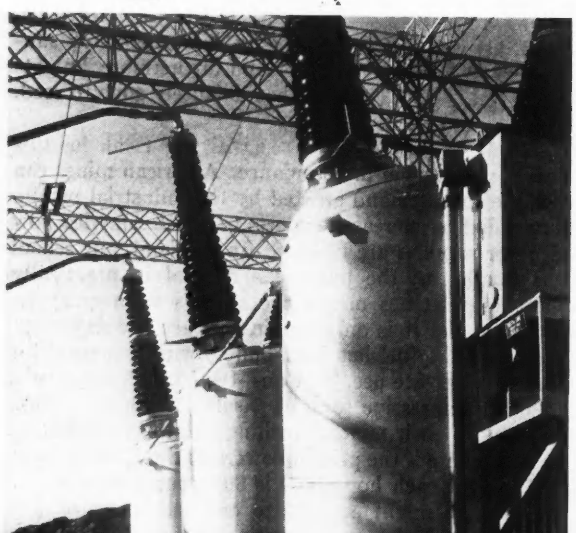
Pulp on the Way. Shipments of wood pulp from Scandinavian countries have been passed through the German blockade on our promise they will not be re-exported. Imports will continue small, however.

Continued Gains in Power Sales Are Indicated—and Next Fall's Election Holds Out the Hope That Life Begins in '40

Can the Utilities Come Back?



BY FRANCIS C. FULLERTON



MARKETWISE, the utilities have long exhibited a marked independence of action, a tendency to go their own sweet way, whether up or down, with little regard to the trend of industrials or rails. It was not until March, 1935, almost three years after the rest of the list had made bottom, that the power shares reached their lowest post-1929 ebb. In 1937 they topped out a good two months ahead of the rest of the market and at a level, incidentally, that was still slightly under their 1933 high.

The principal factor contributing to the wayward nature of the group, of course, is no secret. No. 1 whipping boy of the Administration, victim of Government competition, target of punitive Federal legislation and subject to the continual attentions of state regulatory bodies, the power industry has suffered a long siege of that dread vocational ailment of all business—"politicosis." Apparently convalescent and on the road to recovery as recently as this fall, the industry has suffered a relapse. Investors are naturally beginning to wonder whether its ailing condition may not be chronic.

First symptoms of recurring trouble appeared several weeks ago—symptoms like TVA Director Lilienthal's assertion that Commonwealth & Southern's Alabama Power Co. was not carrying forward the construction of rural lines rapidly enough, undercover gossip in Washington to the effect that the Administration would shortly invoke the death sentence clause of the Utility Act. Then came the super-grid plan and the patient took to its bed again.

The super-grid plan is an outgrowth of a somewhat less elaborate program sponsored by Assistant Secretary of War Johnson some months ago and agreed to by the industry's top officials. With the jettisoning of Johnson's National Defense Power Committee, however, the fine Italian hand of Messrs. Corcoran and Cohen became apparent and the grid plan took on grandiose proportions. Into the picture stepped the National Power Policy Committee headed by Mr. Ickes whose record as a utility hater is just about unimpeachable. Leading utility men were again summoned to Washington to hear what was in store for them.

What they heard were plans for an interconnecting high tension transmission system between the industrial areas of New York, New England, Philadelphia and Pittsburgh, thence westward through Ohio, Michigan, Indiana, Illinois and Wisconsin, southward to St. Louis and the coal fields of lower Illinois, tying into the TVA system and then swinging north again through West Virginia, southern Pennsylvania, Maryland, Delaware, New Jersey and back into New England. There was also unofficial gossip, subsequently denied, of some new steam plants for stand-by or reserve purposes in the event of development of St. Lawrence power.

Proposed methods for financing the project have been varied. First it was suggested that it be left entirely up to private enterprise with possibly some Government aid in the form of RFC loans. Next, the President mentioned the possibility of following England's example, i.e.—ownership split between the utility industry and the Government with the latter holding control. Latest scheme calls for the Government to handle the whole thing through a new agency authorized to issue its own debentures in order not to add directly to the Federal debt.

Under the latter set-up it is proposed that the completed lines be leased to private companies, thus obviating the possibility of further Government competition in the sale of power and also eliminating the need for construction of additional generating capacity in any locality where temporary demand of unusual proportions may develop.

Despite these rather enticing arguments, utility men are understandably chary of the entire affair. Whatever may be promisesd to win Congressional approval and the cooperation of private power interests, the program will put the Government just one step further into the utility business. Nor can any but the very ingenuous be certain that the system will be operated as benevolently as promised once it has actually been constructed. Moreover, its desirability from a national defense standpoint is open to serious doubt. Wendell Willkie probably summarized the opinion of the industry when he termed the project "wholly unnecessary."

Outside the realm of politics, the utility industry has been faring well. Week by week, total output of electricity has been setting new all-time records and the end is not yet. Though the rate of growth of power sales is now far lower than in the halcyon 'twenties, the secular trend is still unmistakably upward. Promotional rate reductions, better and cheaper home appliances, extension of distribution lines especially in rural areas and the growth of the electrochemical industries are all factors that may be counted on to exercise a continuing influence in the direction of expanding consumption. But there are also some additional factors that, unimportant up to now, may gradually assume equal rank with the foregoing as a spur to sales.

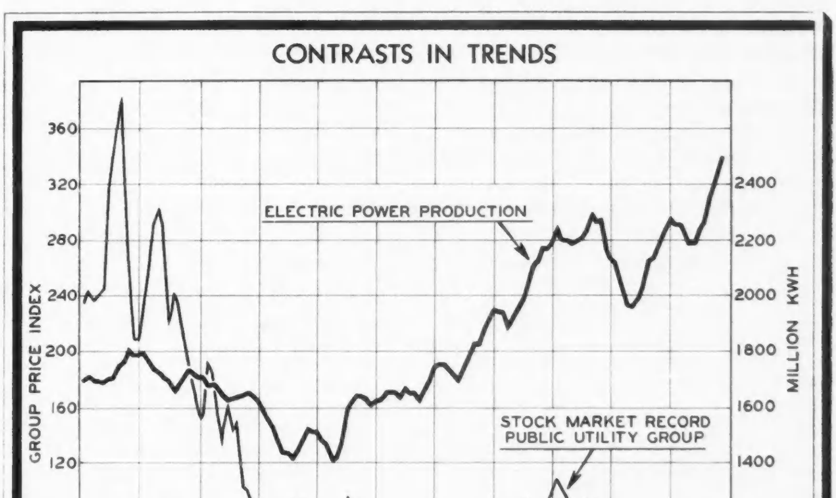
Air-conditioning, for example, has expansion possibilities that may eventually place resultant electricity demand on a par with that for lighting (the latter now accounts for little better than a third of the total domestic load as compared with more than one-half ten years ago; refrigerators and other appliances have taken up the difference).

New Building Aids Power Sales

Then, too, there is that long promised building boom. Sooner or later—and quite possibly within the next few years—an expansion in building activity, particularly in the residential field and of proportions that have not been seen since the 'twenties, is a better than even bet. The additional market for electric power that it will bring with it is bound to be considerable.

From an earnings standpoint, of course, the domestic market is more important than its share of kilowatt hour consumption would indicate and the industrial load, ordinarily accounting for about 55 per cent of total sales, contributes nothing like that percentage of the industry's revenues since rates to large users are relatively low. Consumption in the commercial and domestic markets, which in normal years now account for about 18 and 21 per cent of sales, respectively, has increased more rapidly in the last decade and a half than that in the industrial field.

But what of the near term outlook? With output moving constantly into new high ground, with estimates of industry's capital outlays next year ranging from $550 millions to as high as $700 millions and all hands agreed that the 1940 utility construction budget will top any-



CONTRASTS IN TRENDS

thing seen since 1930's whopping total of almost $1,000 millions, are utility investors coming back into their own? Apart from the political angle—which will not be definitely settled until the first Tuesday after the first Monday of November, 1940—the question boils down to a matter of rates and costs. For despite a 29 per cent increase in kilowatt hour sales over the past decade, the industry's dollar revenues have expanded not one whit. Moreover, net in relation to gross has declined from 27 per cent in 1929 to 20 per cent in the best recent year, 1936.

Changes in electric rates are almost invariably downward and, since 1929, have tended under pressure of public regulatory boards to precede rather than to follow offsetting savings in costs or increases in production. Promotional rate cuts—i.e., those from which the customer benefits only by increasing his consumption—do not ordinarily impair overall revenues. Straight cuts, however, which have become increasingly numerous, bite directly into gross and net income. It is in the domestic field particularly that pressure on rates has been most severe (for obvious political reasons); in the industrial market there are some indications that the downward trend of rates may be approaching an end.

As for costs, they are for the most part of a relatively fixed nature. According to a breakdown by the Edison Electric Institute for the year 1936, the biggest single item was payroll (31.6%); since the greater part of personnel is composed of meter readers, clerical and maintenance forces, etc., little in the way of savings can be realized in salaries and wages when revenues decline. Taxes (23.5%) are, of course, beyond the realm of management control and the trend of levies has been uninterruptedly upward over an extended period of time. The cost of fuel (12.8%) is somewhat more variable but currently has risen as a result of the war advance in almost all commodities. Depreciation charges (16.5%), which used to be determined as a percentage of revenues, are now, at the insistence of Federal and state authorities, generally reckoned on a basis of the estimated life of the property and thus tend to remain fairly constant from year to year.

Though domestic and commercial sales ordinarily show little cyclical variation, swings in industrial consumption, together with the fixed nature of most operating costs, tend to make for some cyclical fluctuations in earnings though the utility industry is far less subject to this sort of thing than are most other industrial lines. As revealed in the table above, only three of the companies included—Commonwealth Edison, Engineers Public Service and Middle West Corporation—were able to take the 1938 depression in their stride and turn in a record of uninterrupted earnings gains over the three-year period 1937-39.

Three Year Earnings Record of 17 Representative Utilities

	Earned per Share		
	1937	1938	1939 (Est.)
American Gas & Electric	$2.57	$2.23	$2.60
American Light & Traction	1.75	1.47	1.60
American Power & Light	0.60	d0.08	0.25
American Water Works	1.14	0.38	1.00
Cities Service Corp	1.02	0.23	d0.35
Columbia Gas & Electric	0.57	0.31	0.75
Commonwealth Edison	2.08	2.37	2.40
Consolidated Edison	2.17	2.09	....
Electric Power & Light	1.17	d0.30	0.10
Engineers Public Service	0.75	0.81	1.50
Middle West Corp	0.57	0.81	1.15
National Power & Light	1.37	1.28	0.90
Niagara Hudson Power	0.84	0.50	0.60
Public Service of N. J.	2.67	2.34	2.80
Standard Gas & Electric	d1.33	d2.26	d0.75
United Gas Improvement	1.09	0.99	1.05
United Light & Power "A"	0.46	d0.15	0.10

Chief reason in the case of Middle West Corp., of course, is the fact that its operating subsidiaries serve areas that are ordinarily little subject to cyclical influences. The company's system derives over half of consolidated gross and about three-quarters of net from the rapidly developing oil and agricultural territory of Texas, Oklahoma and some adjoining states. Since properties in this area are rather well integrated, requirements of the Utility Act will probably be met without too great difficulty though considerable simplification of the system's corporate structure is needed. In this connection, it is of interest to note that the parent company has been employing surplus funds in the purchase of securities of intermediate holding companies. Ultimate recapitalization of the system should benefit security holders of the company considerably as, due to defaulted subsidiary preferreds, it has recently been able to get its hands on only about 40 per cent of the system's earnings.

Other factors tending to restrict Middle West's earnings expansion, even though profit gains since the company's reorganization in 1935 have been considerable, are increased depreciation charges and a rising trend of taxes. Conservative financial policy (a natural aftermath of the Insull fiasco), as well

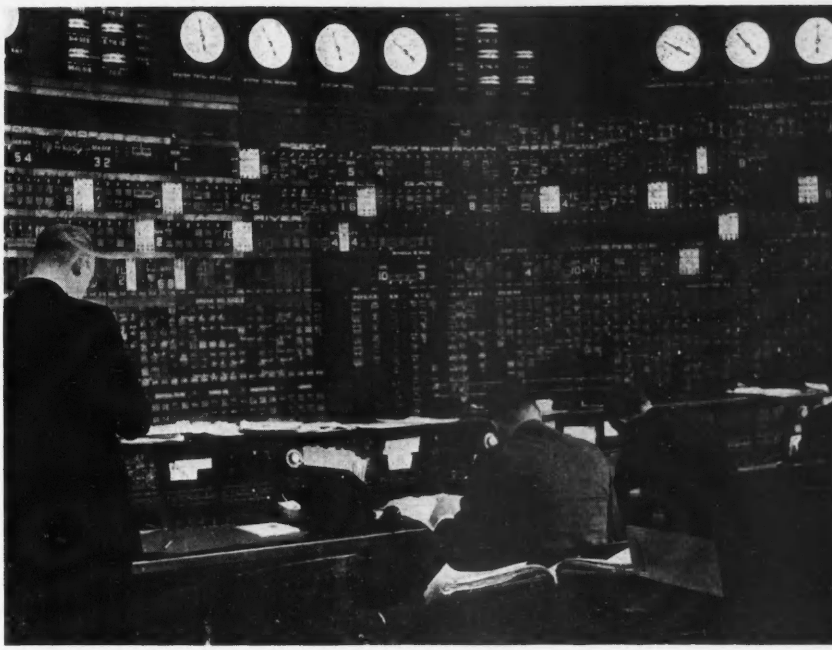
Electric Power Output vs. Capacity

	Output (Billions of Kwh)						Capacity (Thousands of Kilowatts)		
	Indus.	Com'l	Dom.	Other	Lost in Trans.	Total	Hydro	Steam	Total
1939	..	..	..	..	..	...	......	......	......
1938	45	18	21	10	21	115	9,664	26,666	36,330
1937	54	18	19	8	21	120	9,634	25,326	34,960
1936	49	16	17	8	20	110	9,539	24,721	34,260
1935	41	14	15	8	18	96	9,289	24,599	33,888
1934	37	12	14	8	17	88	9,141	24,383	33,524
1933	34	12	13	8	16	80	8,975	24,759	33,734
1932	31	12	13	8	16	80	8,923	24,941	33,864
1931	37	14	13	8	16	88	8,806	24,271	33,077
1930	40	14	12	9	17	92	8,207	23,843	32,050
1929	43	13	11	8	18	93	7,439	22,120	29,559

Source: Edison Electric Institute.

as continued purchases of subsidiary securities, suggest that initiation of dividends is not a near term likelihood though finances of both the parent and its subsidiaries are in generally good shape.

In contrast with Middle West, Commonwealth Edison serves a highly industrialized metropolitan area. And since all its properties are closely interconnected in the Chicago district, the Utility Act presents few problems. However, the company offers an excellent example of how rate cuts can affect gross and net despite advancing kwh sales. For though well sustained industrial consumption in and around Chicago, as well as further expansion in domestic sales as a result of an aggressive merchandising policy pursued by the management, indicate substantial increases in output in the months ahead, the $2,208,000 annual rate reduction instituted last April will probably hold gross revenues well in check from here on. Costs are currently under satisfactory control and additional interest savings will be forthcoming from recent refunding operations. Conversion of the company's debentures is going forward rapidly and though this will result in some dilution of shareholders' equity, earnings on the common are not expected to be seriously affected thereby. The annual dividend rate, recently upped to $1.80 or the best level since 1931, is well covered by earnings and the company's shares are not unattractive on a yield basis.


Triangle

The above control board is the nerve center of the system of Consolidated Edison Co. of N. Y.

A Stake in Southern Industry

Also a holding company, Engineers Public Service derives the bulk of its revenues and profits (55% and 91% respectively) from its Virginia Electric and Gulf States holdings. Future earnings gains, however, may be somewhat restricted by reason of the fact that the latter two subsidiaries are now earning close to their allowable maximum and returns from here on may be determined to a large extent by the attitude of regulatory bodies. On the other hand, the company's most profitable subsidiaries are not seriously threatened by Government projects.

Though Engineers was able to come through the 1938 depression unscathed earningswise, it is still a far cry from its profit levels of a decade ago. Even the $1.50 per share it is expected to report for 1939, a very substantial gain over any other year since 1931, will still amount to only about two-thirds of its average earnings in the late 'twenties. Proceeds from liquidation of its El Paso National Gas holdings enabled the company to clean up arrears on its preferred shares in 1937 but no payments have been made on the common since 1932.

That these three companies were able to breast the tide so successfully in the past few years is, of course, no indication that they will continue outstanding from here on. Indeed, the very factors that usually tend to sustain earnings in a period of general business depression are also those that serve to minimize profit gains in a period of expanding prosperity.

Undoubtedly, the industry's longer range potentialities are still very great even though we can scarcely expect that the 20 per cent power sales gain since 1929 will be improved upon to such an extent as to make possible over the next half dozen years a duplication of the 100 per cent gain that occurred from 1922 to 1929 when the industry was in its mushroom phase of development. Nevertheless, the National Resources Committee estimates that given a $90 billion national income—and, with a pro-business Administration, that would by no means be out of reach—annual power demand would approximate 148 billion kilowatt hours or 21 per cent above the 122 billion total for 1937.

Nor do the industry's prospects rest entirely upon increased power and dollar sales. Over an extended period of years, long strides in the direction of increased operating efficiency and consequently lower costs have been made and there is little doubt that further progress along these lines will be seen. In 1920, for example, 3.4 pounds of coal were required on the average to generate one kilowatt hour; in 1938 only 1.4 pounds were needed and the figure is still going down. The most efficient modern plants can now turn out one kilowatt hour on as little as 0.85 pounds and the average for the industry as a whole (steam plants) is working toward this level. The present-day steam plant has an efficiency, when allowance is made for recovered heat uses, of about 50 per cent boiler efficiency has (*Please turn to page* 380)

Growth Through Filling Basic Needs

J. C. PENNEY

BY STANLEY DEVLIN

NEAR the turn of the century a merchandising organization headed by J. C. Penney opened a small dry goods store in the bustling town of Kemmerer, Wyoming. In outward appearance there was probably nothing to distinguish it from fifty thousand other stores scattered throughout the nation. The direction and merchandising were in the hands of experts, however, and the store prospered from the beginning.

By the end of 1912 there were 34 J. C. Penney stores and a decade later there were more than ten times that number. In 1928 the list topped a thousand units and at the end of last year there were 1,539 stores in the chain. Operating in every section of the country they had total sales of over a quarter of a billion dollars in 1938.

By distinctly limiting its field of activity the company avoided many pitfalls that would have prejudiced, if not entirely prevented, the achievement of its present success. Stores have until just recently been located exclusively in towns with less than 100,000 population. This has enabled them to progress unhampered by the fierce competition that department stores in large cities must face. Then, too, since they are confined to clothing, shoes, and dry goods in the non-luxury class, sales are relatively stable. This factor is further aided by the widely diversified markets that the company serves. Penney operates stores in every state of the Union—ranging in number from only 1 in Rhode Island to 112 in Texas and 125 in California. This spread makes earnings to a large degree independent of localized trends that might go against the direction of the nation's business as a whole. Such centralization as does exist is in the Middle West. In eight states of that region the company has about 460 or 30 per cent of its stores. Actually, of course, the wide variety of industry and agriculture in those states gives them perhaps greater stability than is to be found elsewhere in the nation. The distributing centers are St. Louis and New York. Warehouses in these two cities supply the whole country, and are close to the sources from whence Penney gets the greater part of its merchandise.

There has been a tapering off in recent years of the increase in the number of stores operated. A new trend has developed, though, that gives promise for a continuation of the company's growth. So-called metropolitan units have been established in many of the larger cities such as Seattle, Los Angeles, San Francisco, St. Louis and Philadelphia. Handling a somewhat higher priced and more varied line of goods than the other stores, they operate on the same general basis as the rest of the chain. This among other things means that all sales are on a strictly cash basis, and operating overhead is kept down by excluding the many expensive and unwarranted services that ordinary department stores have been forced to offer. As a result profit margins have been well maintained by these units in spite of the competition that regular department stores offer. As usual the timing of Penney's entrance into this field was perfect. With the experience that the company has from its own operations and the mistakes it has observed in the methods of ordinary department stores, its own success was made more sure.

> The companies covered in this series of articles are outstanding because—
>
> 1. They earned money every year since 1929.
> 2. They will earn more in 1939 than in 1929.
> 3. They have been paying dividends regularly.
> 4. As a group they will pay 50 per cent more this year than in 1929.
> 5. They are selling considerably below their highs of the last two or three years.

Though the rise in general operating costs as a result of higher wage levels and heavier taxes has eaten into the profit margins to some extent, Penney still compares more than favorably with the rest of the retail trade organizations. A major reason for this is that the company owns practically none of its stores. Instead it leases them and is, therefore, free to eliminate the unprofitable units as fast as they lose ground and move others to better locations—all without being forced to take a large capital loss. Operating overhead is thus flexible and capable of rapid adjustment to changes in the rate of business and industrial activity. In addition the cash and carry method of doing business saves the cost of maintaining credit and collection departments, and prevents the otherwise inevitable loss from bad accounts.

Furthermore with the exception of a small corset factory and a cosmetics laboratory, no manufacturing units

are operated. Most of the merchandise is made to specifications and sold under the Penney brand. In this way the company has escaped the burden of a heavy capital investment in manufacturing plants that could not possibly have been as profitable as the stores were during the last difficult decade. By sticking solely to merchandising, in which field it is an acknowledged leader, it has been able to actually gain ground right through a major depression.

This can be seen from the steady climb in net earnings and sales. Though the latter have outrun the former, earnings have in fact exceeded 1929 levels for every year since 1932. The peak in the history of the company thus far came in 1936 when earnings went to $7.36 per share. The following year witnessed a decline from this figure largely because of the sharp drop in prices at the end of the year. The downtrend was continued during 1938 with a further drop in sales and prices. But even so earnings for the year came to $5.40 per share, and compared excellently with the reports of other companies in the same field.

Courtesy J. C. Penney

Sales for 1939 have run on the average 9.8 per cent ahead of 1938. Net for the first six months came to $2.33 per share. And on the basis that the first half year in and year out accounts for only 40 per cent of the total sales of the year, plus the recent rise in farm income, the net for the full year should be approximately $6.00 per share. Sales for the first ten months, without adjustment for the change in the number of stores were $210,-703,234. With the continuance of the current trend, the total sales for year will come close to and might even pass the record of $275,375,137 made in 1937.

Sales Turnover Rapid

The financial position of the company is excellent. Total assets at the end of last year were $85,715,934. And about 81 per cent of this figure, or $69,383,795, was current assets. Cash alone of $19,938,748 was more than equal to total current liabilities of $12,804,574. A comparison of the total sales for last year of $257,963,945 with the inventory position in December, of $49,216,747, reveals that the complete stock of the chain was turned over approximately five times during the year. With prices right on the market, Penney does not make a practice of carrying a lot of deadwood in the form of merchandise that is slow to move.

Capital structure is simple. With no funded debt and no preferred stock outstanding (the last share of preferred was retired in 1934), ownership rests entirely with the holders of 2,543,984 shares of common stock. This, together with the small proportion of fixed overhead, naturally makes for liberal dividend payments. Total disbursements last year came to $4.25 compared with payments of $5.25 in 1937, and a high of $7.25 in 1936. In view of the present earnings, dividends should equal at least $5.00 per share which means a substantial payment at the end of the year since disbursements thus far have been made at the regular rate of $3.00 per share.

The profit margin of the chain might be improved by the indicated reversal in the trend of chain store taxation. Although the company has not been hurt to the same degree as have some of the food chains that are concentrated in only a few states, the threat of punitive levies has occasioned some doubt as to future earnings. At the end of last year there were discriminatory taxes enforced in 22 states of the Union. They affected a total of 754 of Penney's stores. Recently, however, the Supreme courts of three of them—Pennsylvania, Kentucky and Minnesota—have declared such taxes unconstitutional. With this precedent to go by, other courts in other states may follow suit. There is as yet considerable agitation down in Washington about the whole chain store question. At one time it seemed as though legislation might be initiated to establish some sort of Federal levy, but Congress has its ear to the ground. And that the public reaction to such a move would be thumbs down seems almost certain. So aware is the ordinary individual of the savings that he gains through trading in chain stores that any attempt to push through punitive legislation would, in the opinion of political experts, be greeted by a wave of protest. Furthermore since an election year is on the horizon, Congress will obey orders to be on its good behavior. It seems unlikely that any legislation will even be proposed let alone enacted for some little time.

That Penney's growth will not be as dynamic in the next decade as it was over the last ten years seems practically assured. The slowing down in the rate at which stores are added reflects an actual lack of suitable locations, and the company (*Please turn to page* 378)

As the Trader Sees Today's Market

Year-End Report on the Averages

BY FREDERICK K. DODGE

THE year in the stock market started on a cheerful note and is ending in the same way. There were a few occasions during 1939 when things looked very black, a few when the market appeared to be ready to roar past the previous November's highs, and then this latest phase of three months' inaction. It is difficult to believe that after alternately seeing so many reasons why the bottom should drop out or the sky should be pierced the net change in the average has been just about 8 per cent.

That isn't the story, though, for the man who owns Standard of New Jersey or Nickel or General Motors. The averages may influence him more than the action of his own issues, simply because they are easier to follow, but he should never forget that the individual markets within the market are the ones that determine his results for the year. This is a good time to take stock of what has been going on in the more prominent issues under cover of a trifling net decline in the market as a whole.

The chart on page 327 has as its uppermost unit the average of 40 leading industrials, plotted daily for well over a year. The lowest point during the year 1939 was in April, the highest at the very beginning of January, but these extremes have lost interest except that they will go down in the records as the year's range. Net gain or loss since January is one point for examination, the war rally another, and action since then a third.

Table I ranks the 40 industrials in the average according to their performance over the whole period. It was a good year for the merchandising field. Penney and Sears Roebuck place one-two in the group and have backed up their market performances with excellent increases in earnings. These two, incidentally, are the only issues in the average which were higher at the August 24th low point than at the end of 1938; and they have since extended their gains slightly. Woolworth is down in the lowest quarter of the list, yet it held up better than the average until late August. On the war rally, however, its foreign interests dragged it down from 45½ on August 24th to 36½ on September 12th, with a trifling recovery since then.

The motors also have a record they can display with pride. Chrysler hampered by a strike, General Motors by substantial interests in the belligerent countries, they both end the year with gains and place well up in the ranking. Auto accessories were fair, with a good gain for Electric Auto-Lite and a loss for Borg-Warner, which is not so completely devoted to the automobile field. On the other hand, the tire companies managed to do an excellent volume of business and to improve their profit showing impressively, but they have been affected by fears of a squeeze between higher rubber and cotton prices and their own price schedules. U. S. Rubber, the only representative of this industry in the average, is well down in the list.

Whether one classes them as strictly war babies or not, the steels owe their relatively high standing to the September rally and to 90 per cent operations. The consistency of the three steel issues in the average would be curious were it not quite habitual. After Bethlehem had fallen from above 78 at the beginning of 1939 to below 55 in August, it rallied to almost twice that figure and ended with a 5 per cent gain on the year. Republic was 24 in January, 15 in August, and now 24 again. U. S. Steel started 1939 at 69, got down to 43½ on August 24th, and recently sold at 68, or less than a 2 per cent net decline.

In the last war the metals and particularly the coppers were outstanding gainers, but in this one only American Smelting of the four issues in that group included in the average managed to turn in a good performance on the year. International Nickel has been a

Late Gainers in 1939

(Higher in December than at Sept. 12th market peak.)

	Sept. 12 Price	Current Price	1939 Range High	1939 Range Low
*American Radiator	8⅞	9	18⅜	8½
American Tobacco B	78¼	83	89¾	75¼
*Eastman Kodak	150½	167	186⅛	138⅛
Electric Auto-Lite	36⅞	38	40⅝	22¼
Industrial Rayon	24¼	28	29½	16¾
*Loew's	31½	33	54½	30½
*Owens-Illinois	58	63	70	50
*Paramount	6⅝	7½	14⅛	6⅛
*J. C. Penney	84½	91½	94¾	74
Sears Roebuck	77	82	85⅞	60¼
United Aircraft	44¾	46	51	31
*Woolworth	36½	38	50⅜	36

* Declined during rally to September 12th.

conspicuous weak spot, first on threats of Canadian taxation and exchange control, then on loss of Finnish interests, and lately on persistent tax selling by owners who wish to offset profits in other issues by losses in this one. Anaconda suffered during the early part of the year on dismal reports from its South American subsidiaries and the tax situation down there. When the war broke out Anaconda was a spectacular gainer, rising three and a half times as much as the average, but prospects that the Allies will be well supplied with copper from their own mines have pulled the stock back. National Lead has been another disappointment since its first strong rally on the war news; it is now only slightly above its low for the year.

The two worst groups in the average to own during 1939 were the amusements and the business equipments. Loew's, Paramount and National Cash Register all placed near the bottom, all affected by the same thought of business to be lost because of the war. These three issues were among those which lost ground during the September rally in the market. Johns Manville and American Radiator in the building industry have also had a bad year.

The oils are all in the lower half of the list, although they would presumably be helped by a long and desperate mechanized war. As a matter of fact, their gains in early September were well over twice as large as those of the market as a whole, but they were not enough to make up for the previous declines. Only Texas Corp. was able on September 12th to better its price at the beginning of the year. Since then, the discouraging statistics on the industry have hurt the group.

Without a doubt the most surprising discovery in this sort of analysis is to find that an industry setting all kinds of new records is unable to stand out in market performance. United Aircraft gained on the year, but Boeing lost far more, and the result for the two representatives of the industry is well below average. If more issues were included the showing of the group would be greatly improved, since Boeing is a special situation, but even United, which is a leader, was outperformed by such sober wheelhorses as American Can.

When leaders in the rally to September 12th are considered, one expects to find the steels in first place. The blue ribbon war baby of them all, however, gives way to both Republic and U. S. Steel in the compilation in Table II. All of these issues gained more than twice as much as the average in the move from the August intermediate low to the September 12th high. Several of them were of the type that benefits from any rally, no matter what the cause. Since their few days of glory, none of these stocks have held up as well as the average, which has been going through a consolidation phase expected to penalize the widest recent gains. Among the best with 10 to 12 per cent reactions from their September 12th prices have been International Harvester, Allis-Chalmers and Texas Corp. The worst have been Pure Oil and Continental Oil, off 27 per cent and 23 per cent. Their action could be more logically explained if Texas Corp. had not inconveniently held so well.

Nine issues in the average declined during the phase of early war rally. For the (*Please turn to page 375*)

Ranking 1939 Net Market Action

(40 Industrial Stocks)

	1938 Close	Dec. 1939 Price	Change %
J. C. Penney	78½	91	+17
Sears, Roebuck	73¼	82	+13
American Can	100¾	113	+12
Industrial Rayon	24¾	28	+12
Electric Auto-Lite	34¼	38	+11
General Motors	50	54	+ 8
United Aircraft	42¾	46	+ 8
Chrysler	83	89	+ 7
Bethlehem Steel	78⅝	83	+ 5
International Harvester	60¼	63	+ 5
American Smelting	51¾	52	....
Republic Steel	24⅜	24	....
United States Steel	69⅛	68	— 2
Union Carbide	89⅝	87	— 3
Westinghouse Electric	119½	115	— 4
Corn Products	66½	63	— 5
Allied Chemical	193	179	— 7
American Tobacco B	88¾	83	— 7
Eastman Kodak	184¾	167	— 8
General Electric	43½	40	— 8
Texas Corporation	48	44	— 8
Anaconda	35⅛	31	—11
Owens-Illinois	70⅞	63	—11
Allis Chalmers	47¾	41	—14
American Steel Foundries	40⅝	34	—16
National Distillers	28	23	—18
Standard Oil (New Jersey)	53⅛	43	—19
United States Rubber	52	42	—19
Borg Warner	31⅝	25	—20
Woolworth	50	38	—24
International Nickel	56⅛	36	—26
National Lead	27⅛	20	—26
Continental Oil	31¼	23	—27
Pure Oil	11	8	—27
Johns Manville	105	75	—29
Boeing	34⅝	23	—35
Loew's	54⅛	33	—39
National Cash Register	25¼	14	—44
Paramount	13⅝	7½	—44
American Radiator	18	9	—50
Average—40 stocks	119.51	110.24	— 8

Leaders in the War Rally

(Moving twice as widely as the Average—Aug. 24 to Sept 12, 1939)

	Advance to Sept. 12 %	Price Sept. 12	Recent Price
Republic Steel	90	28½	24
United States Steel	90	82½	68
Bethlehem Steel	79	98⅛	83
Pure Oil	72	11	8
Anaconda	66	37⅞	31
Boeing	59	27⅞	23
American Smelting	56	63	52
Allis Chalmers	51	46	41
Texas Corporation	50	50	44
Continental Oil	46	30⅝	23
International Harvester	43	70	63
Average—40 stocks	21	115.28	110.24

Why 1940 Profits Will Be Up For Installment Finance Companies

Current and Long Term Growth of Earnings Is Indicated for Commercial Credit and Commercial Investment Trust

BY H. L. TRAVIS

During the past fifteen years installment financing has become a fundamental part of the national economy. Prior to that time such loans were frowned upon in conservative circles, but the experience of the two leading companies—Commercial Investment Trust and Commercial Credit—has proven this method to be lucrative both for the finance company and retail distributor, while the borrower's ability to pay for his purchases is testified to by the small number of losses realized on outstanding loans. Under the present set-up of mass production methods, individually financed loans are undoubtedly a necessary part of the economic machine, since they assist in spreading purchasing power over a broad area. The question facing investors, however, consists in determining whether earnings of finance companies shall continue satisfactory both in the immediate and more distant future, or whether a period of relative stability lies ahead for the two leading units in the industry.

Both Commercial Investment Trust and Commercial Credit depend largely upon automotive sales, which constitute their chief source of revenue. Through the acquisition of Universal Credit Corp., C. I. T. in 1933 obtained the right to finance Ford dealers, and this connection provides an important contact. In a similar manner the most important single contact of Commercial Credit consists of the financing of Chrysler car sales. The other member of the "Big Three" automobile manufacturers is General Motors, which finances its dealers through its wholly owned General Motors Acceptance Corp. In a general way it might therefore be concluded that these companies are to a considerable extent interdependent, so that automotive sales and automotive financing maintain a fairly close co-relation.

Besides retail and wholesale automobile financing other important sources of revenue consist of textile factoring accounts and industrial receivables obtained in financing purchases of such items as refrigerators, radios, oil burners and other household appliances, store fixtures, etc. While industrial receivables are still relatively small on a percentage basis, this division has shown indications of growth.

Automobile financing is divided into wholesale and retail accounts. The former consist of dealer requirements, since automotive manufacturers sell cars only for cash and few dealers have sufficient capital to make these purchases without borrowing. In addition dealers often have to take used cars as trade-ins with the result that considerable of their capital becomes tied-up over long periods. Finance companies as a rule make loans only against new cars. Rates charged dealers are generally so low, however, as to yield little return, but they are instrumental in obtaining dealer good-will, which is of considerable benefit.

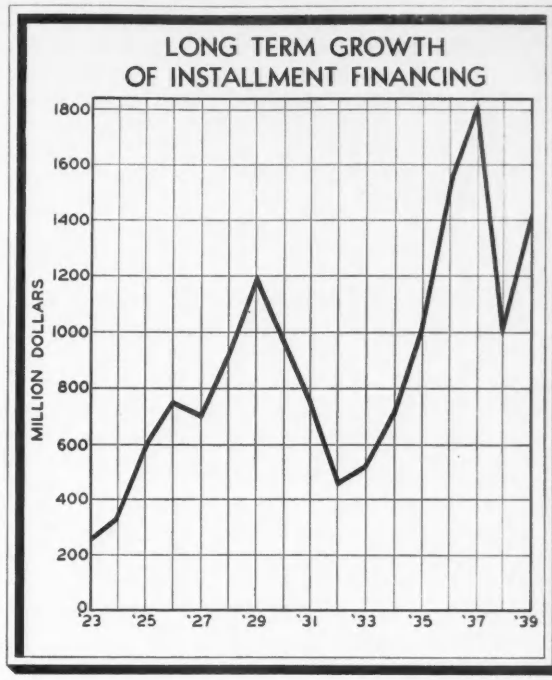
In the retail division it is estimated that from 50 to 60 per cent of all cars purchased require a deferred payment plan. Thus with an expansion of automobile sales the volume of installment paper increases, and conse-

quently the earnings of the finance companies. No control over this important factor can be exercised by the companies themselves, but the actual result is that earnings lag behind those of the major automobile manufacturers. It can therefore be put down as a general rule that increased automobile sales mean a more favorable earnings record for the finance units in the following six months.

In poor years, such as the first six months in 1938, the number of used cars bought on the installment plan approaches the number of new car purchases financed in this way. This is due to the general attitude by the car buying public which restricts its obligations during poor years and expands them in good times. As a result the percentage of new to used car installment paper varies in accordance with general cyclical fluctuations. Another important influence on company profits has been the extension in installment paper from an average of 12 months duration to 18 months at present. This latter figure is, however, a reduction from 24 months paper in vogue for several years until September, 1937, at which time the leading units in the industry came to the decision that terms had grown too lax. At the present time a one-third down payment is required, while credit on used cars is limited to 12 months. Thus changes in terms granted exert a substantial influence on the quantity of paper outstanding, and likewise on the potential earnings of these companies.

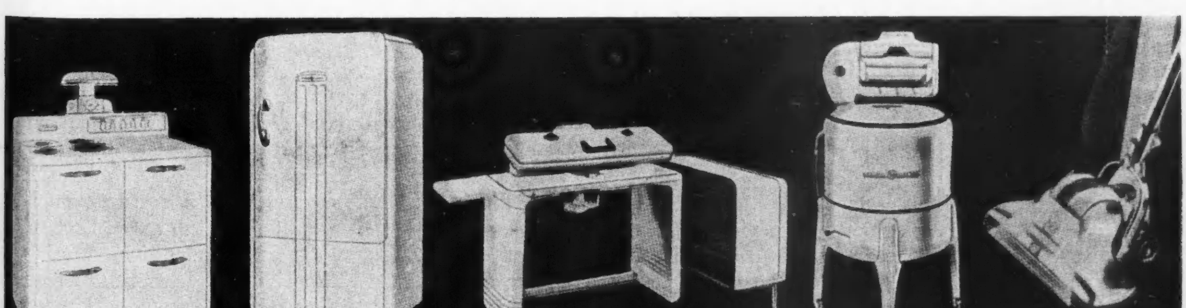
Besides C. I. T.'s interest in Universal Credit Corp., complete control being acquired in 1938, other important acquisitions have been undertaken since the company's incorporation in 1924. Among the most important of these were several textile factoring concerns, including William Iselin & Co., one of the oldest and most prominent factoring units in the country. The addition of this type of business has been effective in making C. I. T. less dependent upon automotive activity. As a matter of fact several indications point to management policy aimed toward independence, so far as possible, of the automobile industry. Even within this industry diversification appears to be a cardinal feature since beside Ford the company serves Nash, Hudson, Graham-Paige, Terraplane, Lafayette, White Motor, Diamond T, Stewart, Reo and Studebaker.

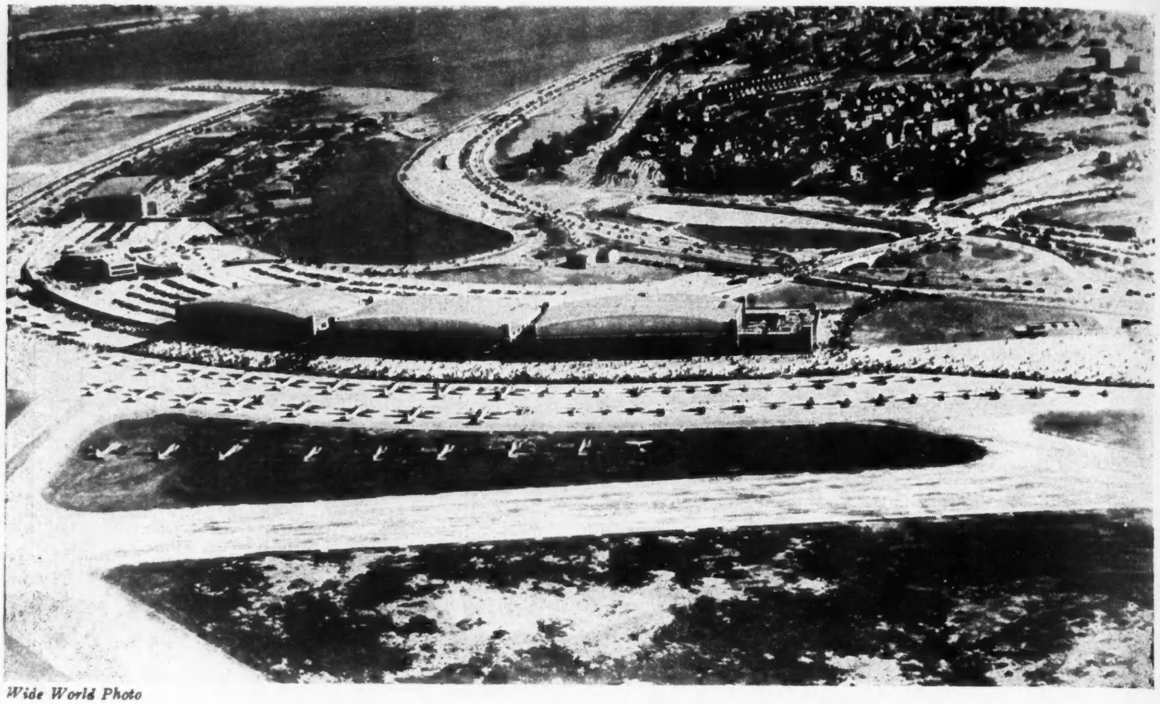
Two important steps in the direction of diversification have been initiated recently. First is the acquisition of National Surety Corp. in 1936 with an outlay of $10,031,000 cash. Secondly, is the now contemplated purchase of the charter of Michigan Industrial Bank in Detroit. This latter merger, which is reported to be



nearing completion, will enable C. I. T. to make loans secured by chattel mortgages and other collateral as well as other small installment loans. Both of these enterprises indicate that the management is not at all inclined to let things drift, but is exerting every effort to anticipate approaching problems. National Surety continues to operate independently with some 6,000 agencies and its own personnel. Its operations are confined to the writing of fidelity and surety bonds, plate glass and burglary insurance.

Like C. I. T., Commercial Credit has expanded through the acquisition of outside units. Organized in 1912, receivables have grown from a mere $2,004,842 in that year to a high of $933,854,332 in 1937. In 1933 a foothold in the textile factoring field was obtained through acquisition of the Textile Banking Co. In this respect the company appears to have followed the path of C. I. T., which entered upon this line of development in a large way in 1931. In any event this business, consisting of the purchase of open accounts of mills and wholesalers with occasional advances on inventories, gives Commercial Credit some diversification. In 1936 control of over 99 per cent (*Please turn to page* 376)





Wide World Photo

View of the hangars and administration building of the $40,000,000 New York Municipal Airport taken on opening day. Flights are scheduled at the rate of 116 per day at the present time.

Profit Prospects for the Airlines

Two of the Leaders Are Now Well Into the Black and the Industry's Best Earnings Phase Lies Ahead

BY WARD GATES

JUST as the railroads superseded the pony express, so air transport is starting to supersede the rails. This does not mean that rail shipments, especially of heavy freight, are doomed to extinction, but rail officials readily admit that air line transport companies have already cut into their passenger and mail traffic, and express business via air is steadily increasing. There can be little doubt that air transport has a long and useful era ahead of it, and now that the first speculative splurge is past the lines are slowly but steadily working into a sound economic position.

Approximately four or five years ago great predictions were being made for air transport shares. Stocks of leading companies sold at fancy prices, at higher levels than they do today, despite the fact that they were being purchased only on the prospects of a visionary future. At the time the public's imagination had been fired, and though undoubtedly correct from a long term viewpoint relatively few people who purchased these shares at the time had the patience to hold through to see their dreams come true. Since there wasn't any quick and easy money, as many had anticipated, most of the enthusiasts lost interest. But today the picture has changed. Many small air lines have been incorporated within the larger systems, while operations, as a result of technical and managerial improvements, have been placed on an efficient basis.

Those who have followed the industry over a period of years readily recall that in 1934 the Post Office Department suddenly and out of a clear sky cancelled air mail contracts to the air lines, and decided that the Government should take complete charge of these operations itself. The disastrous result of that decision, causing as it did the death of many air pilots and the cracking-up of a not inconsiderable number of planes, brought home the lesson to the bureaucrats in Washington that special experience and knowledge is a prerequisite to air mail transportation just as special qualifications are required for army combat flying. Each demands a specially trained personnel and a special type of airplane. While

this Government intervention at the time appeared disastrous it was probably the best thing that could have happened to the industry. In the first place it marked the end of gross Federal interference, and equally important, it led the industry to a more independent attitude. Until this development air transport companies had leaned heavily upon Government support by way of mail subsidies. Following the Government's failure in the operation of mail carriers, rates per mile flown have declined. For example, in 1929 the Government paid $1.09 per mile of mail, whereas by 1936 it paid 28 cents and in 1938 some 30 cents. In a word, the pressure for lower mail rates no longer exists, and if anything new develops higher rates should be the order of the day. Even more important, however, is the fact that the lines are now largely independent of Government aid.

A few comparative figures will give the reader a ready appreciation of the actual growth in air transportation during the past decade. For instance in 1929 the total number of air miles flown was 25,141,499, while for 1938, according to the Civil Aeronautics Authority, this figure rose to 81,058,127, a gain of 223 per cent. Ten years ago the number of passengers carried by air came to 173,405, whereas by the close of 1938 they totaled 1,536,111, a gain of 758 per cent. In 1929 pounds of express carried was 257,443 and by 1938 some 9,452,600, a fantastic gain of 3,580 per cent. The increase in domestic air mail ranges from 6,280,409,884 in 1930 to 14,845,719,671 pound-miles in 1938, an increase of 136 per cent.

In bringing these figures up to date attention should be given to the highly favorable reports for the current year. In September, 1939, both revenue passenger miles and express pound-miles flown recorded new all-time highs. For the first nine months passengers carried gained 43.2 per cent compared with the similar part of 1938. Likewise during the same period express pounds carried increased 32.7 per cent; express pound-miles flown by 26.4 per cent; revenue passenger miles flown by 39.2 per cent and the available passenger seat miles flown gained 23.3 per cent. The load factor, that is the ratio of revenue passenger miles flown to total seat miles operated, increased from 49.1 per cent in the first nine months of 1938 to 55.5 per cent for the same part of 1939.

The foregoing figures clearly indicate a gigantic growth in all divisions of the industry. In the past, however, the air lines have had considerable difficulty in showing earnings on their outstanding common stocks, let alone paying dividends on them. What, therefore, are the problems facing the industry, and what are the possibilities of these problems being solved satisfactorily?

For several years the Boeing 10 to 12-passenger plane and Douglas DC-2's were considered standard equipment by most major air lines. Beginning in 1936 the DC-3 was introduced, which with its 21-passenger seating capacity superseded the former 14-passenger DC-2. It was found that by increasing the seating capacity of a plane 50 per cent operating cost rose less than 25 per cent. Hence if operations could be maintained at a rate giving a large average payload year in and year out substantial headway could be made, and earnings should consequently result. Unfortunately the major air lines had no sooner placed the new large capacity planes in operation than a series of accidents transpired, which had the effect of setting the industry back in the dog house once more with consequently unsatisfactory earnings.

Since these disastrous developments accidents have tended to decline, and it is important to point out that many fatalities due to certain causes have since been safeguarded against, particularly as they were caused by minor technical conditions. The record also shows that while some temporary hesitancy toward travel by air might be shown by the public following a series of accidents within a relatively short time new highs in passengers carried are recorded. As a consequence of this there has been a tendency for air travel to be less subject to seasonal and weather influences than was formerly the case, which in turn has, of course, increased the regularity of service. Thus the increase in safety, technical equipment, not to mention greater speed, have been influential in developing a higher load factor. This load factor on the DC-3's runs on the average at about 61 per cent, or 12.9 passengers per plane without allowance for mail or express. This might be considered the break-even point.

Success of the DC-3 led to their installation on a considerable scale during 1938 with some 14-passenger models operated as sleepers. During 1939 Douglas Aircraft took a step further and introduced the DC-4, which is capable of accommodating 42 passengers. United Air Lines was among the first to purchase six of these new planes at a cost of $500,000 each. These four-engined models have not as yet been delivered, so actual operations have not been undertaken. Both Boeing and Curtiss have introduced and developed models similar to the DC-4. These new 42-passenger planes are for use in transcontinental flights when a coast-to-coast run involves overnight service. Commuter service from San

Courtesy American Airlines

Part of the pay load going aboard.

Courtesy American Airlines

Francisco-to-Chicago-to-New York has been growing steadily, and the managements of some of the major air lines now believe that the time has arrived to install a regular luxury service. The new DC-4's are not, however, practical for short hauls.

One important difficulty in the profitable operation of air lines is that as a virtually new industry, based on the highest technical requirements, a considerable period of experiment has been necessary. Thus transport by air has grown from a rather adventurous undertaking to an increasingly steady business with regular runs. Hence new passenger models have been introduced and installed at a constantly increased rate, so that planes displaced have seldom been kept in service a sufficient length of time to be adequately depreciated. Despite the more economical operation of the new models, at least theoretically, the rapid rate of depreciation has militated against satisfactory earnings results. Secondly, a minimum capacity load is necessary for the larger planes, and since seasonal as well as other elements still make for a somewhat irregular demand the theoretical saving is not always immediately realized.

Rates charged for passenger travel have been steadily reduced, however. In 1933 United Air Lines charged an average passenger rate of 5.65 cents per mile which had been reduced by 1938 to 5.05 cents per mile. This compares not too unfavorably with the Pullman charge of 3 cents per mile and when one cconsiders the saving in time and consequently in necessary meals, costs of air travel are relatively reasonable. While flying costs constitute the major operating expense, estimated at an average of 65 cents per plane mile, other factors make up a sufficiently large percentage of overhead. Thus according to the experience of American Airlines in 1938 ground expense accounted for 23 per cent of operating costs; depreciation and obsolescence charges for 15 per cent; sales, 7 per cent; advertising and publicity, 6 per cent; and administrative and general costs, 3 per cent. Flying expense, according to this tabulation was 46 per cent of the total. The foregoing indicates a potential passenger revenue of about $1.05 per mile against expenses of 65 cents per mile with DC-3's.

The four major air lines are American, United, Transcontinental and Eastern, while Pan American Airways represents America's bid in the international air transport field. The routes of these lines vary and consequently the type of traffic of each is somewhat different, while seasonal factors affect each of them individually. Thus United Air Lines and Transcontinental (T. W. A.) maintain a coast-to-coast service. The former operates the shortest route to Chicago from New York and thence to San Francisco, while shorter routes run from the latter terminus to Seattle, Vancouver and Salt Lake City. Intermediate stops include such cities as Cleveland, Omaha and Denver. The contemplated merger of Western Air Express with United would give the latter a terminal in Los Angeles and provide an uninterrupted service to lower California as far south as San Diego. Approval is awaiting the final decision of the Civil Aeronautics Authority, which is not expected to be announced before 1940. These additional facilities, if granted, will increase United's some 4,800 route miles by another 1,349. T. W. A. runs west from New York to Los Angeles with intermediate stops at Pittsburgh, St. Louis, Kansas City and Albuquerque, New Mexico. In March an important new route was inaugurated between New York-Chicago and Philadelphia.

American Airlines route West follows generally that of Pennsylvania and Atchison railways running from New York to Buffalo and thence to Chicago. From there on it turns south going through St. Louis, Tulsa and Dallas, Texas. Another route runs from New York to Los Angeles via Washington, Memphis and Fort Worth. Both the New York to Boston and New York to Washington lines are particularly well located, and provide important sources of revenue. This company is the largest air transport unit in the country covering in all approximately 6,000 route miles. Eastern Air Lines is in a position to benefit (*Please turn to page* 375)

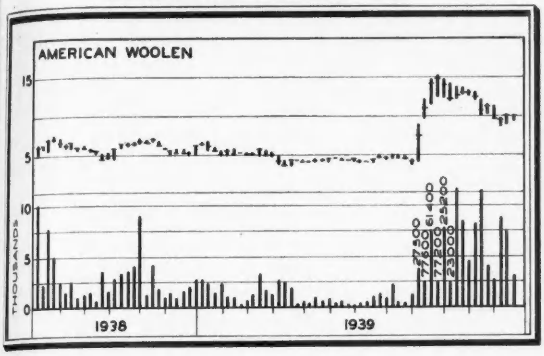
Revenue Sources of Major Domestic Air Lines 1938

(Millions of Dollars)

	American Airlines	% of Total	United Air Lines	% of Total	T W A	% of Total	Eastern Air Lines	% of Total
Passenger	7.44	65.7	5.57	56.1	3.74	60.3	3.94	69.7
Mail	3.33	29.4	3.51	35.3	2.20	35.5	1.51	26.7
Express	.35	3.1	.42	4.3	.16	2.6	.16	2.8
Other	.20	1.8	.43	4.3	.10	1.6	.04	.8
Total	11.32	100.0	9.93	100.0	6.20	100.0	5.65	100.0

Ten Stocks in the Low-Price Range

AMERICAN WOOLEN CO.



BUSINESS: As the largest manufacturer of popular priced woolens in the United States this concern's output normally accounts for approximately 15% of the total domestic consumption. Makes all types of woolens and worsteds such as blankets and other similar articles. In recent years plants have been consolidated and less efficient units eliminated, while new machinery has been installed.

FINANCIAL POSITION: Present capitalization is composed of $1,100,000 funded debt, 355,700 shares of 7% cumulative ($100 par) preferred stock, and 400,000 shares of (no par) common. Company has retired a quantity of its preferred over a period of years at an average price of $30.10 a share through purchases in the open market. At the end of this year accumulations on the preferred stock will total $79.75 a share. Current assets amounted to $35,880,390, as of June 30, 1939; cash, $1,907,645 and current liabilities, $4,698,190.

OUTLOOK: Since the start of the war in Europe on September 1st prices for wool have soared, and consequently prices for finished goods have been correspondingly advanced. Just what the company's actual inventory position was prior to the increase in prices cannot be gauged before issuance of the next annual report and it is upon this factor that earnings potentialities largely turn; this is also an indication of managerial ability. Fair-sized orders have been received from the United States Army and Navy, and an order for 147,000 blankets was obtained in November for the account of the French Army. A prolonged war should result in considerable profit to this unit, since woolens are just as important as munitions.

MARKET ACTION:	American Woolen	Market Average	Amer. Woolen's moves in rel. to av.
'37 high to '38 low.......	78% decline	64% decline	22% wider
'38 low to '38 high.......	128% advance	76% advance	68% wider
'38 high to '39 low.......	51% decline	34% decline	50% wider
'39 low to '39 high.......	320% advance	44% advance	627% wider

Average volatility on four moves 192% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—10. Highly speculative with possibilities enhanced as a result of the war, and immediate increase in company's activity largely dependent upon its continuation. Might be considered a speculation in inventories as well as in earning power.

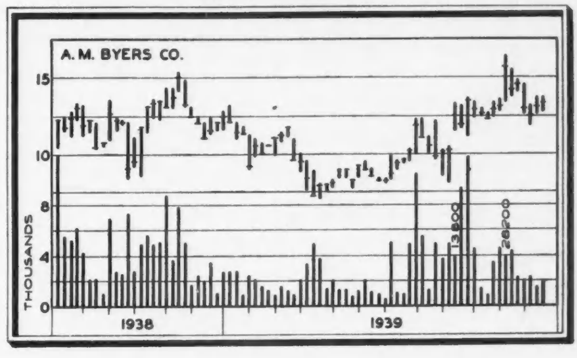
Ten-Year Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Profit Margin	Price Range
1929..........	....	d$4.2	d$19.32	....	27⅞- 5⅞
1930..........	....	d4.8	d20.62	....	20¼- 5⅜
1931..........	....	d2.8	d15.47	....	11⅞- 2⅝
1932..........	....	d7.2	d25.40	....	10 - 1⅝
1933..........	....	7.0	10.64	....	17 - 3½
1934..........	$48.7	d5.4	d20.64	d11.7%	17⅛- 7
1935..........	70.3	2.7	.15	d 4.0	10¾- 4⅞
1936..........	71.0	1.9	d1.88	.5	11½- 7⅝
1937..........	75.0	d1.8	d11.16	3.9	14⅜- 3½
1938..........	42.0	d4.9	d18.50	d13.2	7⅜- 3¼
6 mos. ending: June 30, 1939...	30.7	(1) .3	d 2.17	....	6¾- 3⅝

(1) Before taxes.

Thumbnail Stock Appraisal

A. M. BYERS CO.



BUSINESS: Known as a manufacturer of wrought iron this unit owns and controls the Aston process, which permits the mechanical puddling of iron. The building and plumbing trades constitute large outlets.

FINANCIAL POSITION: Entire capitalization consists of 56,744 shares of 7% cumulative participating ($100 par) preferred stock and 264,635 shares of (no par) common. On December 1, 1939, a dividend of $1.75 per preferred share was paid on arrears and $0.423 accrued interest. This resulted in a balance of $33.25 per share in dividend accumulations and $4.15625 in interest on each share. In provisions covering the preferred stock it is stipulated that in the event dividends are unpaid interest shall accrue on them at the rate of 5%, and that the preferred shall participate equally with the common after the latter has received dividends of $7 per share. Current assets, as of September 30, 1938, totaled $2,787,721; cash and marketable securities, $421,542 and current liabilities, $373,551. Working capital ratio stood: 7.5 to 1.

OUTLOOK: During recent years company has faced higher labor and operating costs and declining sales, while competition prevailing throughout the pipe field militated against higher selling prices. In 1937 as a result of improvement in the condition of the railroad, construction and petroleum industries, earnings for the fiscal year ended September 30th were in the black. Increased industrial activity has aided earnings of late, so that a profit is indicated for the past fiscal period.

MARKET ACTION:	Byers	Market Average	Byers' moves in relation to average
'37 high to '38 low.......	82% decline	64% decline	28% wider
'38 low to '38 high.......	156% advance	76% advance	105% wider
'38 high to '39 low.......	54% decline	34% decline	59% wider
'39 low to '39 high.......	134% advance	44% advance	205% wider

Average volatility on four moves 99% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—13. Though preferred shares have heavy arrearages the common stock offers speculative possibilities. With a continuation of the recent earnings trend current prices cannot be considered as having completely discounted the improvement.

Ten-Year Record

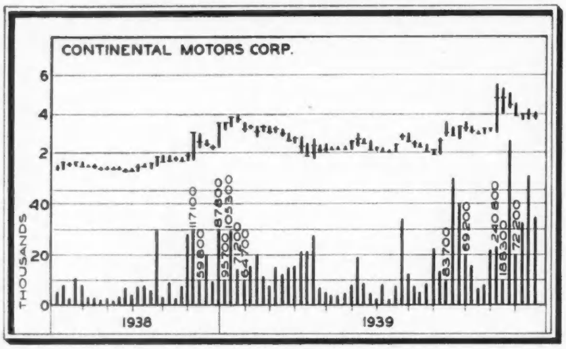
Year Sept. 30th	Sales (millions)	Net Income (millions)	Net Per Share	Profit Margin	Price Range
1929..........	$10.1	$1.9	$5.81	19.7%	192⅞-50
1930..........	8.0	1.1	2.79	14.1	112⅜-33⅛
1931..........	4.9	.08	d1.20	.1	69¾-10⅞
1932..........	2.5	d .9	d5.01	d37.0	24⅝- 7
1933..........	1.9	d1.0	d5.46	d54.9	43¼- 8½
1934..........	3.1	d .7	d4.42	d24.8	32¾-13¾
1935..........	2.9	d .8	d4.78	d29.8	20⅝-11⅜
1936..........	4.6	d .3	d2.75	d .7	29⅛-16½
1937..........	5.8	.09	d1.15	1.6	33¾- 6
1938..........	4.2	d .6	d3.79	d14.3	15⅜- 6
3 mos. ending: Dec. 31, 1938...	....	d .04	d .55	....	14⅜- 11
March 31, 1939.	....	.1	.09	....	13¼- 7⅝
June 30, 1939...	....	.1	.28	....	10 - 7
Sept. 30, 1939..	....	.2	.71	....	13¾- 8⅛

d—deficit.

Thumbnail Stock Appraisal

Ten Stocks in the Low

CONTINENTAL MOTORS CORP.



BUSINESS: Principal product consists of internal combustion engine used for trucks, buses, marine and agricultural equipment. The four general types of engines produced are (1) a gasoline engine for automobiles, buses and trucks; (2) a Diesel engine used for marine work, in buses and relatively small stationary power plants; (3) an airplane engine ranging from 1,000 to 40 horsepower; (4) Heavy duty engines utilized in the operation of shovels, generator plants and elevators.

FINANCIAL POSITION: Capitalization consists of $1,044,950 in first mortgage obligation owed to the Reconstruction Finance Corp. In addition there are 2,789,956 shares of ($1 par) common stock outstanding. Current assets, as of August 31, 1939 totaled $1,629,690; cash, $331,401, and current liabilities, $1,407,677. Working capital ratio stood 1.1 to 1. Inventory was $1,070,567, a gain of $176,406 over the year before, while notes payable amounted to $295,748. Public offering of 350,000 shares of additional common in November improved the company's financial position.

OUTLOOK: On November 20th received an order from United States Army for $1,000,000 of tank engines and parts, while ten days prior to that the War Department ordered $294,200 in airplane engines for the Stearman training planes. At present airplane division is understood to be working three full shifts. On October 1, 1939, it was announced that unfilled orders totaled $5,866,744, an increase of $3,341,971 above a year ago. Continued industrial activity should result in greater demand for the company's other divisions, though with major auto companies now equipped to manufacture their own motors orders from this source are unlikely. Cessation of unprofitable plants and concentration of manufacturing efforts seems likely to increase efficiency.

MARKET ACTION:

	Continental	Market Average	Continental's moves in relation to avge.
'37 high to '38 low	77% decline	64% decline	20% wider
'38 low to '38 high	140% advance	76% advance	84% wider
'38 high to '39 low	53% decline	34% decline	56% wider
'39 low to '39 high	230% advance	44% advance	422% wider

Average volatility on four moves 145% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—3¾. Speculative possibilities are large as a result of airplane interests, though possible earning power is untested. This very uncertainty, of course, makes the shares of this company a highly speculative medium.

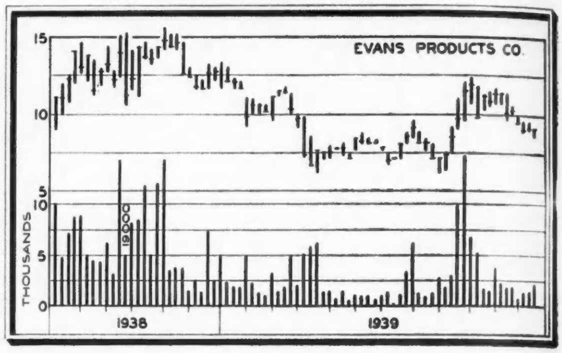
Six-Year Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Profit Margin	Price Range
1933	$4.4	d$3.4	d$1.44	d79.0%	4 - 1
1934	3.2	d1.9	d .81	d59.4	2⅜- ¾
1935	4.6	d1.0	d .42	d22.2	2¾- ¾
1936	5.8	d .6	d .26	d11.0	4 - 2⅛
1937	8.2	.07	.03	.8	3⅞- ⅞
1938	5.7	d .5	d .23	d 9.6	3½- ⅞
3 mos. ending:					
June 31, 1939	....	d .1	d .06	....	4 - 2⅛
April 30, 1939	....	.01	.01	....	2⅞- 1⅝
July 31, 1939	....	d .01	d .01	....	3½- 1⅞

(d) deficit.

Thumbnail Stock Appraisal

EVANS PRODUCTS CO.



BUSINESS: This is a unique organization due to its wide diversification of products. The "Auto-Loader," a patented device for the loading and shipping of automobiles by rail, was the nucleus around which this company was first built. Other products include battery separators consisting of wood inserts which separate the plates of batteries; a wood tile flooring of various grades and sold under different trade names, and specially constructed crates for the shipment of vegetables and fruits. In 1937 a new truck and bus ventilating device was well received with Ford, White and Chevrolet Motor Co. placing orders. The "Evanoil" space heater for homes has also gone well. "Auto-Railer," a vehicle designed to run either on railroad tracks or highways is an additional product.

FINANCIAL POSITION: Capitalization, as of September 30, 1939, consisted of $531,350 long term debt held by banks of which $55,000 is payable each quarter. Final installment is due in July, 1942. Also outstanding are 244,191 shares of ($5 par) common stock. Current assets totaled $2,729,655; cash, $552,792 and current liabilities, $974,437; thereby making working capital ratio 2.8 to 1. Included in current liabilities was $522,309 of short term debt compared with $695,000 a year previously.

OUTLOOK: Despite the diversification of products earnings fluctuate largely as a result of activity in the automotive industry. Continuation of satisfactory automobile demand should result in earnings betterment in the final quarter of this year.

MARKET ACTION:

	Evans	Market Average	Evans' moves in relation to average
'37 high to '38 low	85% decline	64% decline	33% wider
'38 low to '38 high	200% advance	76% advance	163% wider
'38 high to '39 low	62% decline	34% decline	82% wider
'39 low to '39 high	116% advance	44% advance	164% wider

Average volatility on four moves 110% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—9. Stock is very erratic and a greater than average speculative risk. Earnings are subject to wide swings, which are largely attributable to nature of company's output.

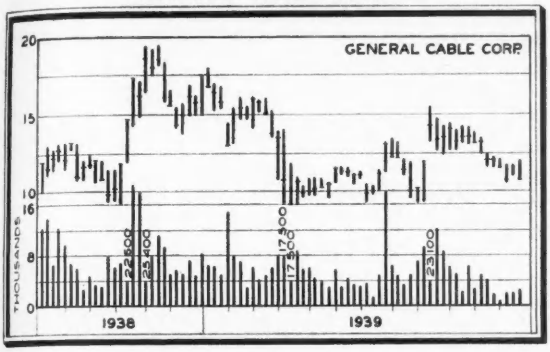
Ten-Year Record

Year	Gross Profit from Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1929	$1.2	$.8	$3.45	$2.50	73¾-15
1930	.5	d .2	d .92	1.25	30¾- 4
1931	.2	d .07	d .34	....	8⅝- 1
1932	.08	d .2	d1.06	....	2½- ½
1933	.6	.2	1.29	....	10 - ⅛
1934	2.1	1.3	5.45	....	27¼- 9
1935	1.5	.5	2.36	1.25	40⅛-15
1936	2.0	.7	3.02	1.75	40⅞-23⅛
1937	2.1	.4	1.73	.75	34¼- 6½
1938	.6	d .5	d2.15	....	16 - 5¼
3 mos. ending:					
Mar. 31, 1939	.2	d .02	d .10	....	13 - 7⅛
June 30, 1939	.1	d .07	d .32	....	8¾- 6
Sept. 30, 1939	.4	.1	.64	....	12¾- 6

(d) deficit.

Thumbnail Stock Appraisal

GENERAL CABLE CORP.



BUSINESS: With widely scattered plants this company is a large maker of all types of cables ranging from the most delicate electrical wires and instruments to the largest cables required in underground and aerial service. Plants are located in Pawtucket, R. I.; St. Louis, Mo.; Emeryville and Los Angeles, California; Baltimore, Md.; Fort Wayne, Ind., and numerous other localities. Products include copper, bronze and brass rods and wire.

FINANCIAL POSITION: Capitalization consists of $9,434,000 1st mortgage 5½% bonds due 1947, and 150,000 shares of 7% cumulative ($100 Par) preferred; 333,527 shares of non-cumulative convertible $4 Class A stock and 618,182 shares of (no par) common. Arrears on the preferred, as of November 1, 1939, amounted to $47.25 per share. Current assets, as of December 31, 1938, totaled $10,691,537; cash, $1,458,926 and current liabilities, $3,492,522. Working capital ratio was 3 to 1. At the time of the last annual report American Smelting & Refining Co. owned 8.21% of the preferred; 44.65% of the Class A and 42.07% of the outstanding common.

OUTLOOK: Present plans for increased Navy and Army appropriations as well as the likelihood that public utility companies may increase their generating facilities should work to the benefit of this company. With volume at a high level profit margins can rise rapidly once the break-even point is past. Thus with utilization of capacity substantial profits are possible. Prices of bar, magnet and weatherproof wire were advanced ½ cent early in October.

MARKET ACTION:	General Cable	Market Average	Gen. Cable's moves in relation to avge.
'37 high to '38 low........	82% decline	64% decline	28% wider
'38 low to '38 high........	240% advance	76% advance	210% wider
'38 high to '39 low........	54% decline	34% decline	59% wider
'39 low to '39 high........	100% advance	44% advance	127% wider

Average volatility on four moves 106% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—12. Highly speculative issue which under favorable conditions could enjoy a substantial appreciation. With any improvement in business activity, this stock could be considered interesting on a speculative basis.

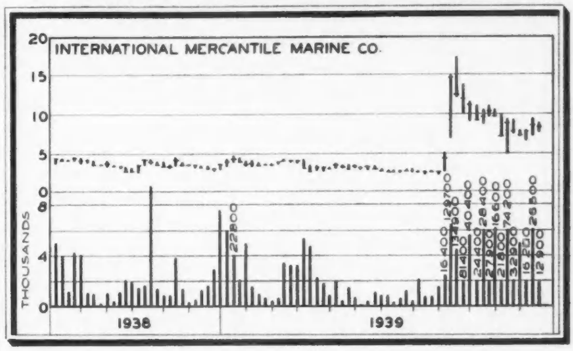
Ten-Year Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Com. Share	Profit Margin	Price Range
1929	....	$4.7	$4.20	....	60¾-23
1930	....	d2.0	d9.73	....	34½- 6½
1931	....	d5.2	d16.23	....	13 - 1½
1932	....	d5.0	d15.55	....	5¼-
1933	....	d2.0	d8.65	....	11½- 1¼
1934	....	d .1	d4.89	....	6⅛- 2¼
1935	....	.4	d3.86	....	6⅜- 2
1936	$25.4	1.6	d1.58	6%	28 - 5¾
1937	37.8	1.2	d2.21	3	32½- 6¼
1938	21.4	d .8	d5.30	d4	19½- 5¾
3 mos. ending: March 31, 1939	....	d .1	d1.28	....	18 - 9
June 30, 1939	....	.02	d .92	....	11⅞- 9
Sept. 30, 1939	....	.2	d .62	....	13⅛- 9

(d) deficit.

Thumbnail Stock Appraisal

INTERNATIONAL MERCANTILE MARINE CO.



BUSINESS: With United States Lines Co. as its principal subsidiary this organization has operated as a holding company since 1937. Its holdings directly and indirectly consist of a 100% interest in United States Lines common stock, and substantial holdings in its preferred issues. Also owns an 85% interest or better in the outstanding capital stock of the Roosevelt Steamship Co. and a 75% interest in The Baltimore Mail Steamship Co.

FINANCIAL POSITION: Capitalization consists of $11,493,000 funded debt, while there is an unconsolidated debt of subsidiaries amounting to $19,640,601. Junior to these obligations are 631,252 shares of (no par) common stock. Consolidated current assets, as of December 31, 1938, totaled $1,728,698; cash and marketable securities, $1,137,046 and current liabilities, $1,153,573; thereby making working capital ratio 1.5 to 5. Notes payable amounted $350,000.

OUTLOOK: Early in December the United States Maritime Commission announced that U. S. Lines, a subsidiary, had withdrawn its application for transferring registry of nine of its vessels to that of Panama. Purpose behind this contemplated move was to conform to Neutrality Act and at same time release vessels for trans-ocean shipping. The S.S. President Roosevelt has been placed in service on a New York-Bermuda route, thereby leaving eight ships not operating regularly. According to J. M. Franklin, president, company is contemplating placing ships under registry of Belgium, Ireland or another European nation so as to preserve inter-neutral trade. A new vessel has been under construction during past year or more, and is expected to be ready for delivery in the Spring of 1940. Cost of ship to Government will be about $17,000,000 and on completion is expected to be sold to U. S. Lines for $11,333,333, two-thirds the cost.

MARKET ACTION:	International Mercantile Marine	Market Average	International's moves in rel. to av.
'37 high to '38 low........	82% decline	64% decline	28% wider
'38 low to '38 high........	142% advance	76% advance	82% wider
'38 high to '39 low........	51% decline	34% decline	50% wider
'39 low to '39 high........	710% advance	44% advance	1500% wider

Average volatility on four moves 415% greater than M. W. S. index of 316 common stocks.

COMMENT: These shares constitute one of the more volatile issues, and any solution to the present difficulties facing the company as a result of the Neutrality Act should improve the outlook substantially.

Ten-Year Record

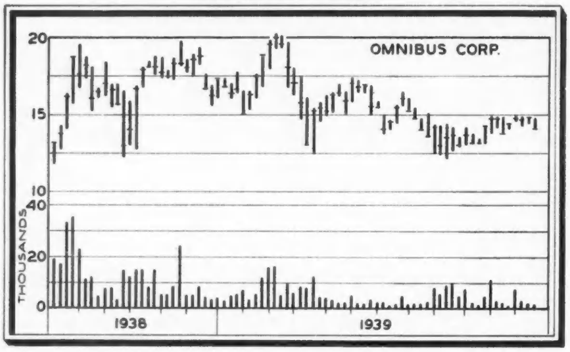
Year	Gross Income (millions)	Net Income (millions)	Ne Per Share	Divi-dends	Price Range
1929	$15.3	$2.4	$4.04	....	39⅛-18⅛
1930	14.8	1.2	2.09	$2.00	33 -15
1931	14.8	d1.2	d2.08	1.00	16½- 2⅛
1932	13.7	d1.5	d2.45	....	4¼- ⅞
1933	12.1	d1.4	d2.30	....	6⅞- 1⅛
1934	9.3	d2.1	d3.42	....	6 - 2
1935	11.1	d1.3	d2.23	....	6½- 1⅞
1936	10.6	d2.2	d3.68	....	8 - 4⅛
1937	11.0	d1.1	d1.82	....	13¼- 1⅞
1938	4.1	d .5	d .87	....	4⅞- 2

(d) deficit.

Thumbnail Stock Appraisal

Ten Stocks in the

OMNIBUS CORP.



BUSINESS: A holding company which controls and operates such important units as New York City Omnibus Corp., Fifth Avenue Coach Co. and Chicago Motor Coach Co. Of less importance are such subsidiary units as Frontier Coach Lines, Champlain Coach and Gray Lines Motor Tours. As of July 29, 1939, New York City Omnibus Corp. controlled through subsidiaries some 846 passenger buses and other transportation equipment. A 25-year franchise was granted in 1933 providing for a 5-cent fare with 2 cents for transfers

FINANCIAL POSITION: Capitalization, as of July 29, 1939, consisted of $5,849,023 of long term debt owed Fifth Avenue Coach Co. with annual installments of $450,000 payable on December 1, 1939 to 1951, inclusive. Interest is at 3%. There are also 61,992 shares of 8% cumulative convertible preferred stock ($100 par) outstanding and 626,636 shares of ($6 par) common. Preferred is convertible at rate of 3 shares of common for each share. Current assets, as of March 31, 1939, amounted to $223,440; cash, $216,052 and current liabilities, $264,354. Thus current liabilities are slightly in excess of current assets. The important elements in the company's balance sheet are, however, its holdings in various bus companies, which are carried at $18,285,163. The entire and only source of revenue is derived from these interests.

OUTLOOK: In Chicago discussions have been underway for sometime looking toward a new franchise for the company. As yet nothing of a definite nature has developed. Company's very profitable and most important subsidiary, New York City Omnibus Corp., is reporting satisfactory earnings, and since this includes operations of the Madison Ave. and Eighth Avenue Coach Corp., the outlook for the parent company is correspondingly encouraging. The chief deterrent to earnings is difficulty with regard to franchises, expenses and costs involved in equipment, and labor costs. An upset in anyone of these factors could react adversely upon earnings.

MARKET ACTION:	Omnibus Corp.	Market Average	Omnibus' moves in relation to average
'37 high to '38 low	72% decline	64% decline	12% wider
'38 low to '38 high	163% advance	76% advance	114% wider
'38 high to '39 low	64% decline	34% decline	88% wider
'39 low to '39 high	71% advance	44% advance	61% wider

Average volatility on four moves 69% greater than M. W. S. index of 316 common stocks.

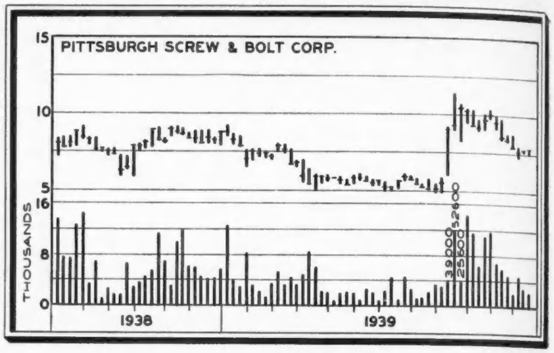
COMMENT: Recent price—14. With gradual establishment of company's activities on a sound basis fluctuations tend to lessen, and shares come more within a semi-stable classification.

Seven-Year Record

Year	Gross Earnings (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932	$4.7	$.9	$ .47	....	4¾- 1½
1933	5.4	1.1	.82	....	8¾- 1¾
1934	4.6	.4	d .04	....	6⅜- 5⅝
1935	4.0	.8	.51	....	20¾- 3½
1936	4.7	.7	.46	....	25⅛-17
1937	....	1.7	1.74	$1.80	26½- 6½
1938	....	1.6	1.72	1.30	19¾- 7½

(d) deficit.

PITTSBURGH SCREW & BOLT CORP.



BUSINESS: With plants located in Pittsburgh; Gary, Indiana; Chicago, Illinois and two other smaller communities in Pennsylvania this company makes screws, rivets, bolts, nuts, rods and other miscellaneous items. In addition also produces a patented pipe thread protector and railroad tie dowels. Manufacturing facilities for the production of airplane propellers have been enlarged this year. About 35 per cent of total sales are to miscellaneous industries, 30 per cent to railroads, and 15 per cent to jobbers. The balance goes to building industry.

FINANCIAL POSITION: Funded debt totaled $1,320,000, as of September 30, 1939, with 1,500,000 shares of (no par) common forming the remainder of the capitalization. Current assets amounted to $4,454,045; cash and marketable securities totaled $1,444,086, while current liabilities were $974,264. Working capital ratio stood: 4.5 to 1.

OUTLOOK: Business depends fundamentally upon activity of railroad and heavy construction industries, which means that basic conditions in heavy durable goods must be satisfactory before substantial earnings can be reported. Company developed hollow steel propeller, which is used on many new type Government planes. On November 1, 1939, Curtiss-Wright Corp. is reported to have purchased this propeller, and agreed to continue its manufacture at the company's plant at Neville Island, Pa. Financial details of this transaction have not been reported. Action in selling propeller rights might indicate decision on part of management to confine company activities to only old line and established products.

MARKET ACTION:	Pittsburgh Screw	Market Average	Pittsburgh's moves in relation to avge.
37 high to '38 low	77% decline	64% decline	22% wider
'38 low to '38 high	82% advance	76% advance	8% wider
'38 high to '39 low	47% decline	34% decline	38% wider
'39 low to '39 high	151% advance	44% advance	197% wider

Average volatility on four moves 66% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—8. Shares offer speculator an opportunity to participate in heavy industrial activity, and assuming that purchases are correctly made substantial percentage gain may be obtained.

Ten-Year Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1929	(1)$5.1	$3.2	$2.18	$2.30	31½-16
1930	(1) 3.0	1.3	.93	1.40	22⅞-13⅛
1931	(1) .8	d .5	d .36	.87½	15¼- 3
1932	(1) .2	d .8	d .56	....	4⅞- 2
1933	(1) .9	d .1	d .10	....	11¾- 1⅞
1934	(1) 1.3	.2	.16	....	11⅜- 4⅞
1935	(1) 1.0	d .04	d .03	....	10 - 5⅞
1936	9.9	1.0	.73	.52½	13⅞- 7⅞
1937	12.4	1.2	.84	.65	20 - 4⅞
1938	5.2	d .3	d .23	....	9¼- 4⅞
3 mos. ending: March 31, 1939	....	(2)d .008	d .01	....	9¼- 5⅞
June 30, 1939	....	(2)d .04	d .03	....	6½- 5
Sept. 30, 1939	....	(2) .1	.11	....	11⅜- 4⅞

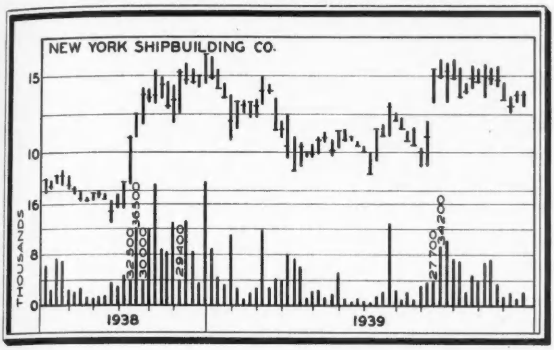
(1) Gross profit. (2) Before income taxes. (d) deficit.

Thumbnail Stock Appraisal

Thumbnail Stock Appraisal

Low-Price Range (cont'd)

NEW YORK SHIPBUILDING CORP.



BUSINESS: Entire activity of this company consists of building and reconditioning ships. Former electrical business of the American Brown Boveri Co. was disposed of to Allis Chalmers in 1931. Likewise interest in Export Steamship Co. was sold in 1935.

FINANCIAL POSITION: Capitalization consists of $2,769,400 1st mortgage 5's due 1946; 17,850 shares of 7% cumulative ($100 par) preferred; 325,000 shares of participating stock ($1 par) and 175,000 shares of ($1 par) founders stock. Participating feature of issue junior to the preferred expired in 1929, though provision stipulated that this stock was still entitled to 65% of all net profits accruing after that date. Arrears on the 7% preferred stock, as of July 1, 1939, amounted to $19.25 a share. Founders stock is entitled to 35% of all net profits after provision for preferred dividends. Current assets, as of December 31, 1938, totaled $4,480,304; cash and marketable securities, $1,636,545 and current liabilities, $986,659. Working capital ratio stood 4.5 to 1. Land, buildings and equipment appear to be carried at conservative values with depreciation and write-downs amounting to better than $7,700,000, while net value on the books for these items is $4,585,356. Goodwill and patents are carried at $1.

OUTLOOK: Substantial increase in orders brightens prospects for future, and earnings should consequently gradually improve. Present naval war abroad should, if anything, stimulate ship construction. Company is engaged on United States Navy business and makes destroyers and smaller vessels as well. Large navy program leads to belief that earnings are likely to gain during immediate future. Labor disputes were settled in October, 1939, with granting of a 6% wage increase to union. Unfilled orders $109,655,555 on September 30th.

MARKET ACTION:	New York Shipbuilding	Market Average	N.Y.Shipbuilding's moves in rel. to av.
'37 high to '38 low.......	69% decline	64% decline	8% wider
'38 low to '38 high.......	245% advance	76% advance	222% wider
'38 high to '39 low.......	47% decline	34% decline	38% wider
'39 low to '39 high.......	96% advance	44% advance	118% wider

Average volatility on four moves 96% greater than M. W. S. index of 316 common stocks.

COMMENT: Present outlook suggests substantial speculative possibilities. Stock must be considered as fundamentally dependent on war conditions, and likely recipient of orders placed by United States Navy. Participating shares listed on Stock Exchange.

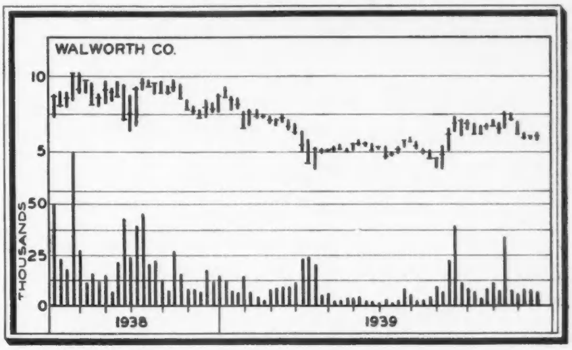
Ten-Year Record

Year	Gross Billings (millions)	Net Income (millions)	Net Per Participating Share	Uncompleted Orders on Hand as of Dec. 31	Price Range Partic. Stock
1929..........	....	$.4	$ .32	....	34¾- 4⅛
1930..........	....	.001	NIL	....	21¾- 6¼
1931..........	....	1.2	1.84	19.7	12⅜- 2⅛
1932..........	....	1.3	2.23	8.5	6¼- 1⅝
1933..........	....	d .02	NIL	40.9	22½- 1¾
1934..........	....	d .2	NIL	44.7	22⅞- 9½
1935..........	....	d1.4	NIL	32.2	16⅛- 6⅛
1936..........	$14.0	.3	.55	18.3	15⅝- 9½
1937..........	13.0	d1.3	NIL	27.9	15⅜- 3
1938..........	11.0	.5	.82	95.6	16⅜- 4¾

(d) deficit.

Thumbnail Stock Appraisal

WALWORTH CO.



BUSINESS: Manufacture of valves and fittings makes up major activity of this concern with output consisting of steel, iron and bronze valves; and malleable steel, iron and brass fittings. Changing demand which is now requiring higher pressures and temperatures in public utility, oil, industrial and marine work, creates need for more steel products rather than those made of iron.

FINANCIAL POSITION: Capitalization consists of $6,769,000 of 20-year 1st mortgage 4% bonds due 1955 and $757,500 debentures paying 6% due in 1955. In addition there are 65,274 shares of ($10 par) 6% cumulative preferred stock and 1,354,185 shares of (no par) common. Arrears on the preferred amounted to $1.05 per share, as of September 30, 1939. Current assets, as of December 31, 1938, amounted to $5,657,873; cash, $492,387, and current liabilities, $1,542,643.

OUTLOOK: Demand for valves and fittings is largely dependent on activity in the petroleum, railroad, marine and construction industries. The Walseal fitting made by this company has filled requirements for better quality, and the silver braze Walseal fitting is being more widely used, especially in marine work for Navy and merchant vessels. New refining methods are also likely to benefit this company in creating a better demand for its products. Improved equipment purchases by railroads of late should also result in some addition to earnings. Undoubtedly greater industrial activity will be reflected in operations in numerous ways.

MARKET ACTION:	Walworth	Market Average	Walworth's moves in relation to avge.
'37 high to '38 low.......	76% decline	64% decline	18% wider
'38 low to '38 high.......	128% advance	76% advance	68% wider
'38 high to '39 low.......	61% decline	34% decline	80% wider
'39 low to '39 high.......	131% advance	44% advance	198% wider

Average volatility on four moves 91% greater than M. W. S. index of 316 common stocks.

COMMENT: Recent price—6. Represents a greater than average risk, though when purchased at correct time a substantial percentage gain can be obtained. Frequently what appears as turn for better in operations is of temporary duration. Large fixed obligations gives common considerable leverage.

Ten-Year Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1929..........	....	$2.0	$6.10	$1.40	49⅞-22
1930..........	....	.1	.27	2.00	42⅜-10½
1931..........	....	d2.0	d6.52	.25	15 - 1½
1932..........	....	d1.3	d4.21	....	4⅜- ¾
1933..........	....	d .8	d2.63	....	8⅜- ⅞
1934..........	$9.0	d .2	d .82	....	6⅜- 2¼
1935..........	10.1	d .2	d .94	....	6⅜- 1¼
1936..........	13.7	.5	.40	....	12⅜- 5½
1937..........	16.6	1.3	(1)1.03	1.00	18¾- 3¼
1938..........	10.4	d1.2	d .99	....	10¼- 4½
3 mos. ending:					
March 31, 1939.	....	d .04	d .04	....	9¼- 5
June 30, 1939...	....	d .09	d .08	....	5⅞- 4
Sept. 30, 1939..	....	.1	.07	....	7⅜- 4

(1) Before allowance for dividends on new 6% preferred. (d) deficit.

Thumbnail Stock Appraisal

Columbian Carbon — United Carbon

Favored by Rising Profits from Natural Gas and Indicated Improvement in Carbon Black

By PHILLIP DOBBS

FOR the better part of two years the base price of carbon black has been below production costs. And yet the major companies in the field, United Carbon and Columbian Carbon have shown steady profits. The explanation of this apparent paradox lies in a production sideline that keeps both concerns in the black regardless of difficulties in their main business. This ace in the hole is the natural gas they sell on a wholesale basis.

Carbon black is formed by the incomplete combustion of natural gas, the flame being made to impinge on a metal surface, covering it with a carbonous deposit. Quantity production, therefore, calls for vast resources of cheap gas. And United Carbon and Columbian Carbon have both been very successful in securing to themselves thousands of acres of natural gas properties. With the production of carbon black to a large degree unprofitable in recent years, they have been able to sell large amounts of their gas to pipe-line companies on long term contracts. A continuation of the present improvement in the statistical position of carbon black though, will see more gas taken by the principal manufacturing divisions of the two companies.

Few laymen have even the faintest idea as to what carbon black is or for what purposes it is used. We actually find it on all sides, however, since it forms the base of the finest black paints, inks, and lacquers, and adds thousands of miles to the life of automobile tires. The discovery of this last application is what transformed the originally static business into an important industry. The value of the product centers in its fineness of division, which makes it impossible to distinguish the individual particle under an ordinary microscope, and gives it its density and binding strength. Prior to 1914 carbon black was in demand solely as a coloring agent. Printers and paint manufacturers had used it in small amounts since the last years of the 19th century. But when in the course of color experiments it was discovered that a mixture of rubber and carbon black was far superior in strength and wearing quality to ordinary rubber, a completely new field was opened up. As the automobile industry grew by leaps and bounds, carrying the demand for rubber tires to dizzy heights, the need for carbon black increased proportionately, until today the consumption is measured in hundreds of millions of pounds.

This growth brought with it all the trials and tribulations of a volatile industry, however, and carbon black producers have their work cut out keeping the supply-demand factors balanced at a point that offers some profit. Too often inventories are above the needs of their principal customers, the rubber manufacturers. And the base price of the most widely used type of carbon black is then actually below production cost. This has been true since late 1937 when the price was cut from around 6 cents per pound to an all-time low of $2\frac{1}{4}$ cents per pound. Since the rubber industry normally takes about 89 per cent of domestic output, the sharp curtailment of production left the carbon black manufacturers with a tremendous inventory position at the end of the year. The 157,000,000 pounds of finished blacks on hand at that time were enough to supply all

Distribution of Revenues

United Carbon Sales

	1928		1938	
Carbon Black	$4,708,110	85.4%	$3,420,878	48.0%
Natural Gas	644,874	11.6%	3,410,587	47.8%
Other Products	163,102	3.0%	291,035	4.2%
Total	$5,516,086	100%	$7,122,500	100%

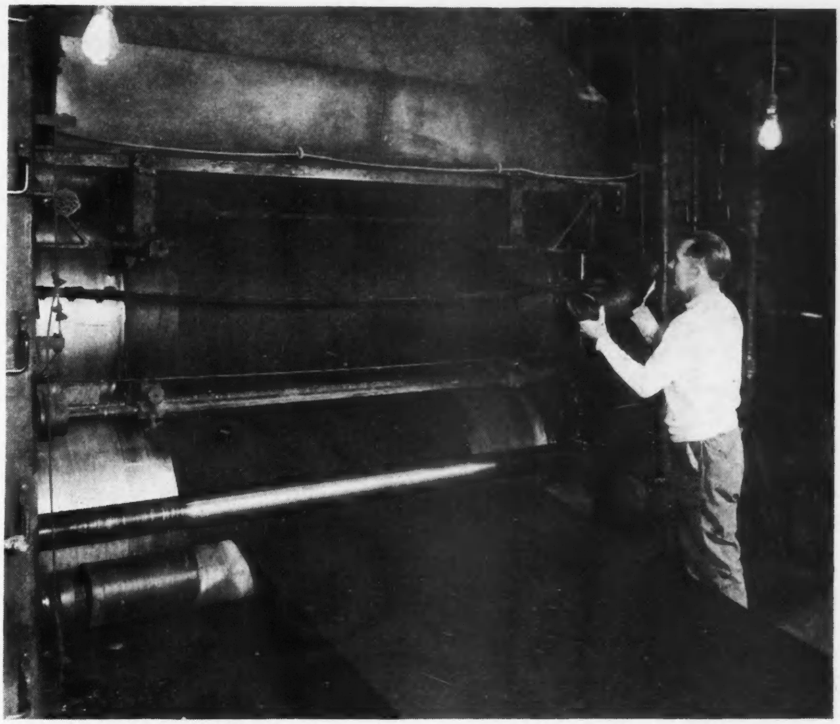
Columbian Carbon Sales

	1928		1938	
Carbon Black	*$5,282,271	49.5%	$3,696,582	29.1%
Natural Gas	2,310,109	21.6%	4,866,090	38.3%
Other Products	*3,060,491	28.9%	4,146,944	32.6%
Total	$10,652,871	100%	$12,709,616	100%

* Estimated.

needs for over four months at the rate of consumption then existing.

Naturally the price could not be advanced under these conditions, and the industry set about reducing inventories. This effort has been largely successful since stocks now total about 134,000,000 pounds and, considering the present rate of consumption, this is enough for only two months. Though the profit line has not yet been crossed in this division, a price increase of ½ cent per pound has been established which is a step in the right direction.



Courtesy Goodyear Tire & Rubber Co.

Nearly ten per cent of the compound used in manufacturing tires is carbon black. Above, impregnating fabric for tires.

Both United Carbon and Columbian Carbon are able to sell certain special and high grade carbon blacks at a profit. But these sales do not bulk large in total volume, and the 1938 year-end statements showed that the fact that the companies made profits is directly attributable to the increasing sales of natural gas. On a dollar volume basis United Carbon's sales are divided about equally between carbon black and natural gas with other products accounting for perhaps 4 per cent of the whole. Columbian's operations, however, show a greater degree of diversification. Dollar sales of natural gas were actually ahead of carbon black though they came to only 38 per cent of the total, while the normally major product placed a poor second with approximately 29 per cent of the total. Printing inks and iron oxides were also important contributors to Columbian's sales dollar, making up 25 per cent, while the other 8 per cent came from incidental operations.

Expanding Property Accounts

Formed in 1921 as successor to a West Virginian corporation of the same name, Columbian Carbon today has 744 producing wells located throughout thirteen states on 377,759 acres of gas deposits. Carbon black production last year was over 117,800,000 pounds while natural gas output passed 57,000,000,000 cubic feet. United Carbon was the result of a consolidation of fifteen carbon black and natural gas companies back in 1925, and today controls about 262,000 acres of gas lands located in several states but with the main fields in the Texas Panhandle. Both companies added to their property last year. United's developments included fifteen wells in West Virginia with a combined daily flow of 120,000,000 cubic feet of gas and a well in Oklahoma with a daily flow of over 24,000,000 cubic feet of gas. A lease was also acquired from the Republic Steel Corporation covering 13,000 acres of land in Kentucky. Columbian's capital expenditures for new properties came to $873,993 and included the purchase of 28,184 acres of land and four wells. The company also drilled 35 producing wells itself and brought the flow of gas to an all-time high.

The last decade has witnessed a strong rise in the demand for natural gas, accompanied by a steady rise in price. What this has meant to the carbon black concerns may be judged from the fact that in the boom year of 1929 United sold 87,900,000,000 cubic feet of gas for only $745,986 whereas last year total sales of 133,265,000,000 cubic feet of gas brought in $3,410,587. Columbian has had a similar experience, with a 60 per cent increase in sales resulting in a 100 per cent increase in gross revenues from the natural gas division.

Both companies have excellent financial records. In only one year at the very bottom of the depression did United Carbon show a small deficit, while Columbian has reported a profit for every year since it was incorporated. In spite of the operating difficulties in the carbon black divisions, both concerns have passed their 1929 earnings level repeatedly. Even last year though they were, of course, affected by the business decline, Columbian earned a net of $5.13 per share and United was able to report a net of $3.78 per share.

Certain differences in the structure and operations of the two companies give Columbian greater earnings stability and United perhaps the edge when it comes to translating a business and industrial upswing into profits. For one thing, United's production is concentrated equally on two fields only, carbon black and natural gas. This gives greater force to the swings in the profit line of carbon black than is the case in the other company. Columbian turns in a steady profit from its printing ink and iron oxide divisions. (*Please turn to page* 380)

For Profit and Income

Greener Fields

Far fields that look greener have recently attracted the attention of three leading concerns heretofore identified, respectively, with the financing of automobile installment sales, the production of industrial gases and the manufacture of electrical devices and supplies. **Commercial Investment Trust,** through acquisition of Detroit's **Michigan Industrial Bank,** will venture experimentally into the field of small personal loans. **Air Reduction,** in exchange for 157,000 of its own common shares (which will increase outstanding equity capitalization 6 per cent), will acquire **Ohio Chemical & Mfg.** whose business in medical gases, chemicals and equipment, already the largest in the country, AN's management plans to expand further. Finally, Paul Kollsman, who eleven years ago invested $500 to form the aeronautical instrument company that bears his name, is selling out to **Square D** to the tune of some $4,000,000 in securities and cash, the price being slightly less than ten times estimated 1939 earnings. The purchase will give the latter company a stake in aviation, one of the most valuable trade names in the field, $2,000,000 of additional backlog, and further product diversification.

Westinghouse Photo

The flexible tube and focusing device of this 220,000-volt portable X-ray machine enable the apparatus to be aimed at welds in any position in massive steel equipment being diagnosed for possible defects.

Present from Mr. Whiskers

The shower of Christmas dividends that fell into the lap of the investing public at the close of 1936 was largely the doing of the Federal tax collector; in order to escape the effects of the late and unlamented undistributed profits levy, most corporations paid out the bulk of the year's earnings. Though it is not widely realized, the situation this year is somewhat similar. For while the last vestige of the undistributed profits tax has now been eliminated, there has long existed in the revenue law a section providing for severe penalties on "unreasonably" retained income—surtaxes of 25 per cent on sums up to $100,000 and 35 per cent on amounts in excess of that figure—which are a good deal higher than anything called for in the 1936 law. Though this section has seldom been invoked before, the Treasury has let it be known this year that it intends to make its application general. Retention of anything above 30% of net, says Mr. Whiskers, will be considered unreasonable and the burden of proof to the contrary will rest with the corporation.

Meat Packers

First of the major packers to report earnings for the fiscal year ended October 28, **Swift & Co.** shows a net of $1.74 per share as contrasted with a loss of 73 cents in the preceding twelve months. Virtually all of the improvement occurred in the second half as before that a weak price structure seriously hampered earnings. The upturn in consumer demand that got under way in late

spring, together with increased hog slaughtering and maintained supplies of beef, served to rectify the situation. Current outlook for **Swift**, and the rest of the industry as well, is encouraging. Further increases in hog and lamb marketings should keep plants busier than they have been in a number of years, demand should continue at satisfactory levels and by-product operations are expected to yield much better returns than a year ago.

Happy New Year

One of the most firmly established market traditions of the holiday season is the Christmas to New Year rally. Indeed, only three years out of the past 41 have failed to witness advancing stock prices during this period; whatever may come after, the market thus usually starts the New Year on the right foot. Typical rising tendency of the list in the last days of December is largely due to the fact that tax selling generally comes to an end several days before Christmas, buying for replacement setting in its stead. Then, too, it is during this period of cheer that the usual crop of optimistic predictions for the future begins to appear. Their tenor is invariably heartening even to the most sophisticated and there is a pervading feeling that perhaps civilization may somehow totter through the crisis after all.

Full Blast

The quarter now closing will go down in the history of the **steel industry** as one of the few in which operations averaged close to 90% of capacity. Profits, of course, will be sharply higher than in the September quarter for, while raw material costs have risen, increased output has greatly reduced per ton overhead. Moreover, though there has been no advance in official quotations, discounts were eliminated with the outbreak of war; also, deliveries against low priced orders of last spring and summer were for the most part completed by about mid-quarter, a substantial improvement in realized mill prices having occurred since. Profit gains this period, however, will be far from uniform. This is the first quarter in which the effects of last year's change in the basing point

Preferreds with Arrears

The 23 preferred stocks listed below are issues carrying dividend arrears and having estimated 1939 earnings in excess of annual dividend requirements.

	Divd. Arrears	Paid 1939	Earned per Share Act. 1938	Earned per Share Est. 1939
American Rolling Mill $4.50	$2.75	$4.00	d$2.91	$8.25
American Power & Light $5	19.57	5.17½	5.31	5.85
Byers, A. M. $7 participating	37.41	12.57	d10.69	9.46
Certain-teed Products $6	15.00	None	2.34	7.00
Commonwealth & Southern $6	14.25	3.00	7.91	8.75
Continental Baking $8	6.00	10.50	11.21	10.80
Crucible Steel $7	35.50	None	d9.37	9.25
Electric Power & Light $6	41.50	None	6.08	7.80
Electric Power & Light $7	48.41	None	6.08	7.80
General Outdoor Advt. $4 "A"	26.50	4.00	4.85	8.50
Kelsey-Hayes $1.50 "A"	2.62½	None	d3.11	2.40
Northern States Power $7	2.62½	6.56¼	5.84	7.80
Northern States Power $6	2.25	5.62½	5.84	7.80
Pere Marquette $5 prior	10.00	None	d20.18	8.84
Republic Steel $6	18.00	7.50	d81.04	67.00
Revere Copper & Brass $5.25	9.19	None	d17.90	7.30
Standard Gas & Electric $6	34.20	None	2.82	9.80
Standard Gas & Electric $7	39.90	None	2.82	9.80
United Corp $3	1.05	3.45	3.42	3.60
United Gas $7 1st	24.12½	8.00	11.98	12.00
Warner Bros. $3.85	29.84	None	18.72	16.98
Western Maryland $7 1st	134.75	None	2.57	8.60
Yellow Truck & Coach $7	7.00	14.00	3.58	22.50

system will be apparent in year to year earnings comparisons. As reports come to hand, it will be possible to determine how greatly such concerns as **Jones & Laughlin, Sharon Steel** whose operations are highly localized have been penalized by the multiplication of basing points.

Break for the Rails?

Oldtime malpractices of the railroads—discriminatory rates, secret rebates and special services to large shippers—were what brought to the I C C its present broad regulatory powers. Regulation, once its need was finally recognized, was far overdone and, with the rise of competing means of transportation, the rail carriers found themselves sadly hamstrung. A recent decision of the I C C, however, allowing quantity discounts in a specific mid-western case, may, if carried to its logical conclusion elsewhere, mean the biggest break for the railroads in many a moon. For these carriers are best equipped to operate as mass transporters (less-than-carload business is frequently unprofitable), but up to now have been little able to compete with trucks and barge lines due to greater rate flexibility of the latter. Coming on the heels of its recent decision equalizing north-south rates on certain manufactured commodities, the I C C's latest ruling may presage a shakeup in the rail situation though any ultimate change for the better will, at best, be a long while in coming.

Street Gossip

Foreign selling, formerly coming into the market at the rate of about $1,000,000 daily, has recently eased off to from $100,000 to $300,000. Allied liquidation is greatly diminished while Belgium and Holland remain light buyers on balance. * * * Definition of a market letter at recent dinner of New York Financial Writers Association, Wall Street counterpart of Washington's Gridiron Club: "A paradoxical and rambling contradiction in vigorous terms that says absolutely nothing at great length." * * * Most spectacular effort to date to reveal to the man in the street the inner workings of the Stock Exchange will be CBS's broadcast of the last half hour of trading this year—11:30 A.M. to 12 o'clock noon on December 30.

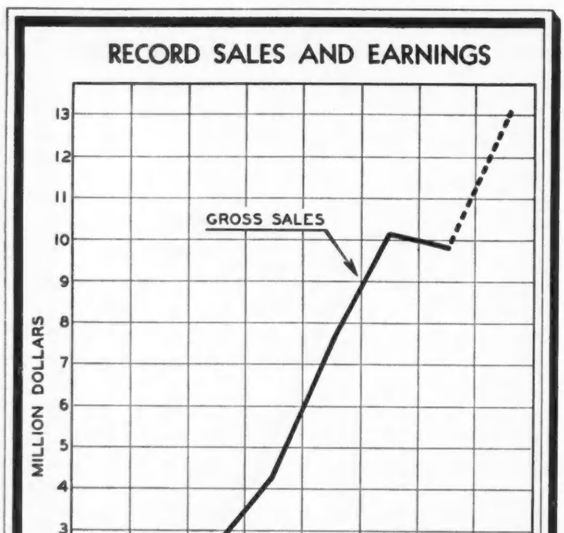
National Gypsum Profits at Record High

The Factors Behind a Phenomenal Performance

BY GEORGE L. MERTON

In the earnings record of American business, 1929 stands as a golden monument—yet it was the worst year in the corporate history of National Gypsum, for the company reported an actual operating deficit of $36,449! This action was quite independent of the building cycle too, for that reached its high in 1925, the year National was formed, and was still in high ground during the boom years. The lack of correlation between the company and its industry over those years was further demonstrated by the fact that from 1929 on the company registered consistent gains though the construction trades slumped and scraped bottom in 1934.

The explanation for this remarkable performance is simple. National Gypsum—at that time purely a plaster wallboard producer—was wobbly for five years after its formation because of the chaotic conditions that existed in the gypsum industry. It had to contend with price wars brought on by over capacity in an industry with far too many small companies. Gradually, however, the sound judgment of the men in control made itself felt and the company began to forge ahead, improving its competitive position steadily. Gypsum prices were also stabilized to a degree, and today over 80 per cent of domestic production is in the hands of three leading concerns of which National ranks second.



The management early conceived the idea of combining under one trade name and one sales force all the various products connected with the building of walls and ceilings. This would enable operating economies that might spell the difference between a profit and a loss, and make for broader representation in the construction industry. Accordingly a program of expansion was inaugurated that entailed among other things plowing back into the company a major portion of earnings each year. As a result under the trade names of Gold Bond, Sunflex, and Craftex the company now manufactures 139 materials in addition to its original plaster wallboard. The main divisions are gypsum, insulation, metal lathings, lime, paints, and acoustical materials.

Gypsum as the basic commodity is perhaps the most important. It is hydrated calcium sulphate rock from which the chemically combined waters are drawn off by a special process leaving what is known as plaster of paris, the base of all gypsum plasters. The rock is found in seven commercial deposits throughout the nation, and in six of them National has holdings. In addition the company has a rich deposit in Nova Scotia. The applications of the base material are chiefly plaster, plaster wallboard, tile boards, plaster grainboards, partition blocks, and roofs. The normal market for gypsum is estimated at approximately $75,000,000 annually and furthermore has shown gains in relation to the entire building industry as a result of the new developments in house fabrication and architectural design.

Recent years have brought a growing market for insulation. Air conditioning, improved buildings standards and a better knowledge of the ultimate savings in heating and maintenance have combined to make this division a profitable one. And National manufactures a complete

line of insulation planks, lathings, tile, rock wool, and fibre board. In 1937 a $1,500,000 plant for the exclusive production of insulation board of all types was put into operation. Located in Mobile, Alabama, it has an unlimited supply of southern pine and other raw materials right at the back door.

Tying in logically with the company's other wall and ceiling products, the manufacturing of metal lathings has taken on increased importance of late. By stressing the fact that the savings in repairs and upkeep more than compensate for the slightly higher initial cost of the metal products, the company has won a widening sales volume in the low priced house field. National has an advantage in this division, too, for the cost of distribution is kept down by the fact that it is handled by the same staff that handles the other Gold Bond materials.

Lime is a basic component of 90 per cent of the walls that are put up today. The company has, therefore, assured itself of an adequate supply at all times by acquiring mines of its own. The surplus production is sold separately as an industrial product and is used for soil conditioning, disinfectants, brick mortar, and finds its way into the chemical industry, the glass industry, the paper industry and the rubber industry.

Paints are naturally important in the finishing of most building work, and National offers some outstanding new developments in this field. Made with a casein base instead of the usual oil base, the company's flat paints represent an important advance. They dry faster, leave no brush marks and give far greater light reflections than the ordinary types. It is even cheaper at times to use these paints, which are sold under the trade name "Sunflex," than to apply washing chemicals.

Richard B. Hoit from Cushing

The final division of the company produces acoustical materials. Noise reduction is an essential factor in the efficiency of modern offices and in the comfort of modern homes. The objectionable din of crowded places is toned down remarkably through the use of sound deadening plasters and tiles, and directional insulation can rectify the acoustical errors in the majority of incorrectly built halls and theaters.

As in every industrial concern, research is the backbone of National's progress. Its research staff is growing steadily in numbers yet the savings that have been instituted in plant production, the new developments that have come from the laboratories and the improvements made on old products have made this department a profitable one. In the near future the staff will have an entire building of its own for research.

The decade of expansion just concluded saw the purchase of numerous going concerns in key position throughout the industry in addition to plant construction by the parent concern. The most important of these acquisitions were: Macoustical Engineering Co., makers of acoustical products; Universal Gypsum and Lime Co.; Atlantic Gypsum Co.; Craftex Co., paint manufacturer; Best Brother Keene's Cement Co. National Gypsum's plants are now located at fourteen strategic points throughout the nation, and command excellent principal markets as well as good sources of raw materials. In May of this year the newest plant was put into operation in Savannah, and produces a complete line of gypsum products for the Southeastern markets. The combined daily capacity of all these plants is 1,635,000 square feet of gypsum board, 4,310 tons of ground limestone, 400 tons of burned lime, 10,000 pounds of chalk, 20,000 pounds of texture paints, 1,500 pounds of casein paints and 56,000 square yards of metal lathings.

After the deficit in 1929 earnings began a steady climb to new highs in spite of the fact that business in general was in the throes of the worst depression in history. The gains continued until 1937, in which year the company witnessed a sharp setback, but last year saw all the lost ground regained. Earnings in 1938 came to $921,063 or $0.49 per share. Paced by the increased volume of residential building, the company's operations have gone to new highs this year, and with the greater efficiency derived from plants producing somewhat nearer to capacity, net profits are up more sharply than gross sales. The latter showed a 35 per cent increase over the first nine months of last year, while net profit increased 62 per cent over the same period for 1938. Earnings for the first three quarters totaled more than for any full year in the company's history. At $1,216,044 they equal $0.80 per share and with sales continuing at the same high rate the results for the full year should be near to $1.20 per share.

Just recently National sold an issue of $5,000,000 3⅞ debenture bonds due (*Please turn to page* 380)

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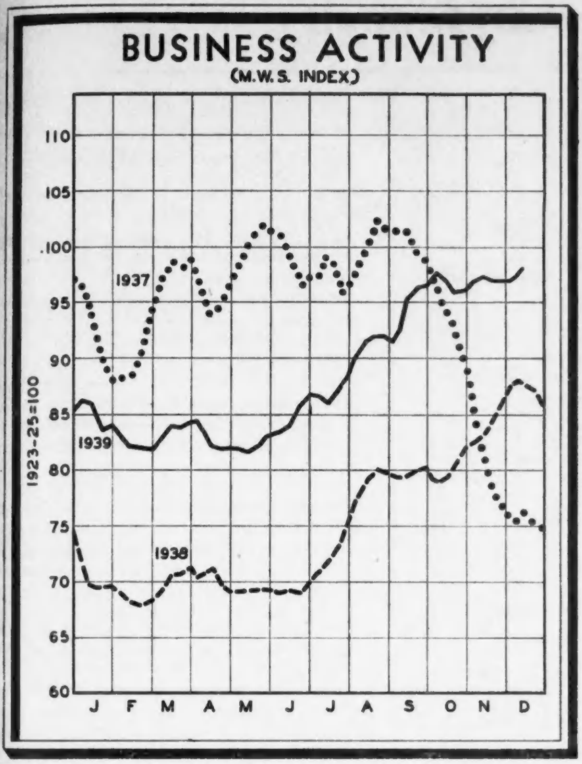

CONCLUSIONS

INDUSTRY—Business Activity at new recovery high; but mild first quarter recession probable.

TRADE—Chain store sales 10% above last year; but holiday trade backward.

COMMODITIES—Strength in the grains and in cotton feature commodity markets.

MONEY AND BANKING—Commercial loans due for some belated seasonal decline.

The Business Analyst

With all components of our Business Index, save Lumber shipments, reporting better than normal seasonal improvement or less than normal seasonal recessions during the past fortnight, the nation's per capita volume of **business activity** has expanded sharply to the best level recorded since September, 1937. Resumption of capacity operations at the Chrysler plants has caused an exceptionally sharp rise in Automobile production, and contributed to the establishment of a new all time record in Electric Power output. Comparison of the Federal Reserve Board's revised index of 124 for **industrial production** in November with our own index of 113 on the same basis (without compensation for population growth) indicates that production is still running considerably ahead of general business activity. In many instances **new orders** are below the rate of shipments. These are straws which indicate some backing up of **inventories** in the hands of dealers and consumers, and point to the probability of a mild corrective business set-back in the first quarter to around the August and third quarter's average of 91, per capita basis, from the current level of 98.

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According to the National Industrial Conference Board, manufacturers' inventories at the

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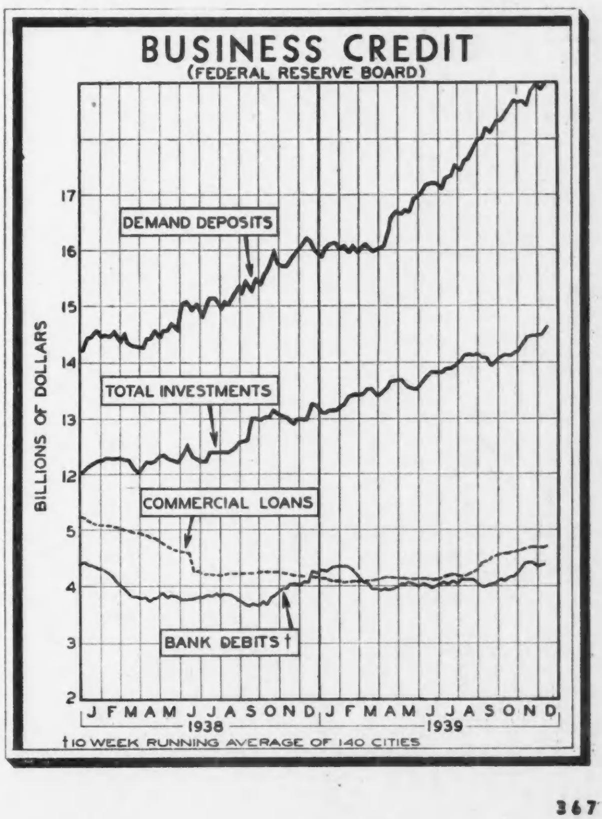

Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Nov.	124	121	103
INDEX OF PRODUCTION AND TRADE (b)	Oct.	92	89	81
Production	Oct.	91	88	79
Durable Goods	Oct.	79	73	60
Non-durable Goods	Oct.	96	96	90
Primary Distribution	Oct.	88	86	77
Distribution to Consumers	Oct.	97	95	87
Miscellaneous Services	Oct.	82	83	78
WHOLESALE PRICES (h)	Nov.	79.2(pl)	79.4	77.5
INVENTORIES (n. i. c. b.)				
Raw Materials	Oct.	91.4	89.9	105.8
Semi-Finished Goods	Oct.	92.8	99.2	109.8
Finished Goods	Oct.	112.0	108.1	112.4
COST OF LIVING (d)				
All Items	Nov.	85.7	85.6	85.6
Food	Nov.	79.6	79.7	79.5
Housing	Nov.	86.7	86.6	86.4
Clothing	Nov.	72.9	72.6	73.2
Fuel and Light	Nov.	85.6	85.2	85.9
Sundries	Nov	96.8	96.8	96.8
Purchasing value of dollar	Nov.	116.7	116.8	116.8
NATIONAL INCOME (cm)†	Oct.	$6,204	$6,010	$5,886
CASH FARM INCOME†				
Farm Marketing	Oct.	$812	$781	$774
Including Gov't Payments	Oct.	894	847	836
First 12 Months	1939	7,625(pl)	......	7,632
Prices Received by Farmers (ee)	Nov.	97	97	94
Prices Paid by Farmers (ee)	Nov.	122	122	121
Ratio: Prices Received to Prices Paid (ee)	Nov.	80	80	78
FACTORY EMPLOYMENT (f)				
Durable Goods	Oct.	95.5	89.4	79.7
Non-durable Goods	Oct.	110.6	110.2	104.6
FACTORY PAYROLLS (f) (not adjusted)	Nov.	101.8(pl)	101.3	81.2
RETAIL TRADE				
Department Store Sales (f)	Nov.	94	90	89
Chain Store Sales (g)	Nov.	117.0	113.3	109.5
Variety Store Sales (g)	Nov.	122.0	115.5	115.4
Rural Retail Sales (j)	Oct.	123.4	125.4	108.5
Retail Prices (s) as of	Nov. 1	91.2	90.2	89.0
FOREIGN TRADE				
Merchandise Exports†	Nov.	$287.0	$332.1	$314.7
Cumulative year's total† to	Nov. 30	2,804.0	......	2,887.8
Merchandise Imports†	Oct.	215.3	181.5	178.0
Cumulative year's total† to	Oct. 30	1,835.8	......	1,612.9
RAILROAD EARNINGS				
Total Operating Revenue★	1st 10 ms.	$3,281,797	......	$2,926,919
Total Operating Expenditures★	1st 10 ms.	2,413,033	......	2,257,671
Taxes★	1st 10 ms.	301,768	......	286,338
Net Rwy. Operating Income★	1st 10 ms.	456,617	......	274,040
Operating Ratio %	1st 10 ms.	73.53	......	77.13
Rate of Return %	1st 10 ms.	2.07	......	1.24
BUILDING Contract Awards (k)	Nov.	$299.8	$261.8	$301.7
F. H. A. Mortgages				
Selected for Appraisal†	Nov.	80.7	99.2	84.1
Accepted for Insurance†	Nov.	65.0	74.2	58.2
Premium Paying†	Nov.	67.1	61.1	54.3
Building Permits (c)				
214 Cities†	Oct.	$97.4	$84.5	$77.0
New York City†	Oct.	20.5	18.7	20.1
Total, U. S.†	Oct.	117.9	103.2	97.1
Engineering Contracts (En)†	Nov.	302.2	245.1	217.0

PRESENT POSITION AND OUTLOOK

(Continued from page 367)

end of October were 14% below the 1937 average, and only 3.6% above the current year's low on July 1st. The Department of Commerce finds that inventories held by wholesalers in October were generally not out of proportion in relation to sales for that month. It is quite probable, however, that they may by now have become somewhat unwieldy in relation to the recent reduced rate of sales, and that customers may be overstocked in relation to current consumption. **New Orders** booked by manufacturers in October, according to the N. I. C. B., were 46% above the 1937 average; but 11% lower than in September.

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Unemployment on Nov. 1st amounted to about 8,150,000, compared with the 1933 peak of 14,706,000, the 1937 low of around 6,000,000 and the current year's high of 11,360,000.

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Merchandise **exports** in November, though 11% below October, were 15% above last year. The somewhat greater than normal seasonal drop in exports in November, as compared with October, was attributable largely to a sharp decline in shipments of farm products. Judging from strength of agricultural commodity prices, foreign purchases must have been resumed on a sufficiently large scale to more than make up for any temporary drop in exports. The sharp rise in exports in September and October doubtless reflected in part a considerable speculation in inventories such as took place domestically, and last month's drop would be a natural aftermath. But this should not be construed as a permanent loss of foreign trade resulting from the war. Now that the Allies have completed their purchasing organization there should be a continuous expansion in exports for duration of the war. The renewed advance of prices for agricultural staples points to an ultimate war-bred inflation if the war is prolonged; though **retail prices** are still only moderately higher than last year. **Department store sales** recently have been rather disappointing, possibly due to the same uncertainties that are being reflected in a lifeless stock market. Sales for the week ended Dec. 9 were only 4% above last year, compared with a 6% increase for the month of November. November's **chain store sales,** on the other hand, were 10% ahead of last year, and **rural retail sales** rose 11%.

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Though **carloadings** are currently only 11% above last year, November gross revenues were up nearly 15%. Drought in the winter wheat belt, with a harvest probably 30% below last year, will cut into earnings of the grangers; but the **railroads** should derive some benefit in competition with trucks from the I. C. C.'s recent permission to make "wholesale" rates on bulk shipments of commodities by rail.

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Construction contracts awarded during November in 37 States east of the Rockies were within 1% of last year's total for that month. Residential contracts were up 22%, while commercial building contracts rose 50% and manufacturing plants jumped 80%. Residential **building material prices** rose 7.5% between Sept. 1 and Nov. 1.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Nov.	5,463	5,394	3,558
Pig Iron Production in tons★	Nov.	3,720	3,628	2,270
Shipments, U. S. Steel in tons★	Nov.	1,271	1,219	680
AUTOMOBILES				
Production				
Factory Sales	Oct.	313,377	188,751	209,512
Total 1st 10 Months	1939	2,773,252	......	1,728,326
Registrations				
Passenger Cars, U. S. (p)	1st 10 ms.	2,168,629	......	1,464,051
Trucks, U. S. (p)	1st 10 ms.	408,002	......	316,072
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Nov.	367.6	359.6	323.7
Shipments, U. S. & Canada★ (tons)	Nov.	369.3	368.6	340.7
Mill Stocks, U. S. & Canada★ (tons)	Nov. 30	206.9	208.5	214.9
LIQUOR (Whisky)				
Production, Gals.★	Nov.	8,946	7,074	10,572
Withdrawn, Gals.★	Nov.	10,385	8,550	9,559
Stocks, Gals.★	Nov.	465,934	469,173	466,175
GENERAL				
Paperboard, new orders (st)	Oct.	497,834	628,272	370,453
Railway Equipment Orders (Ry)				
Locomotive	Nov.	41	34	3
Freight Cars	Nov.	7,691	11,220	132
Passenger Cars	Nov.	8	28	32
Cigarette Production†	Nov.	14,461	15,384	13,506
Bituminous Coal Production★ (tons)	Nov.	42,835	45,950	35,925
Boot and Shoe Production Prs.★	Nov.	31,000(pl)	36,924	30,054
Portland Cement Shipments★	Nov.	10,146	12,829	8,573
Commercial Failures (c)	Nov.	886	916	984

PRESENT POSITION AND OUTLOOK

Exclusive of Chrysler, whose dealers are not yet adequately stocked retail sales of **automobiles** during the first 10 days of December were 23% above the like period last year. U. S. and Canadian output is estimated at 1,155,000 units for the current quarter, and around 1,300,000 for the first quarter of 1940.

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Machine Tool operations in November were at 91.2% of capacity, the highest this year, compared with 84.9% in October, and the year's low of 52.5% in January. **Lumber** orders in November were 14% below last year, compared with an 11-months' increase of 16%. North American stocks of **newsprint** on Dec. 1st were the largest since June, 1938. **Portland cement** shipments in November were 18% above last year, leaving month-end stocks at mills 6% lower than a year earlier.

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A total of 8,166 new **freight cars** were ordered during November, making an 11-months' total of 53,789, against 16,981 for all of 1938 and 51,369 in 1937. **Locomotives** ordered in 11 months numbered 317, vs. 252 for all of 1938 and 424 in 1937. The "Railway Age" estimates that the railroads must install 62,000 new cars yearly to keep abreast with demand, against an average of only 20,000 built annually during the past ten years.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Dec. 16	98.4(pl)	97.4	87.4
ELECTRIC POWER OUTPUT				
K.W.H.†	Dec. 16	2,605	2,586	2,333
TRANSPORTATION				
Carloadings, total	Dec. 16	681,166	687,265	606,003
Grain	Dec. 16	35,547	38,310	35,959
Coal	Dec. 16	134,585	128,516	126,007
Forest Products	Dec. 16	34,144	34,996	29,132
Manufacturing & Miscellaneous	Dec. 16	290,052	292,360	238,673
L. C. L. Mdse	Dec. 16	150,148	154,216	148,091
STEEL PRICES				
Pig Iron $ per ton (m)	Dec. 18	22.61	22.61	20.61
Scrap $ per ton (m)	Dec. 18	17.83	18.08	14.92
Finished c per lb. (m)	Dec. 18	2.261	2.261	2.286
STEEL OPERATIONS				
% of Capacity week ended (m)	Dec. 23	89.5	91.5	53.0
CAPITAL GOODS ACTIVITY				
(m) week ended	Dec. 16	105.5	105.0	83.5
PETROLEUM				
Average Daily Production bbls.★	Dec. 16	3,866	3,828	3,276
Crude Runs to Stills Avge. bbls.★	Dec. 16	3,415	3,460	3,160
Total Gasoline Stocks bbls.★	Dec. 16	78,158	77,196	70,573
Gas Fuel Oil Stocks, bbls.★	Dec. 16	103,151	104,590	116,340
Crude—Mid-Cont. $ per bbl	Dec. 21	1.98	1.98	1.28
Crude—Pennsylvania $ per bbl	Dec. 21	1.02	1.02	1.02
Gasoline—Refinery $ per gal	Dec. 21	0.06⅞	0.06⅞	0.06⅛

PRESENT POSITION AND OUTLOOK

Electric power output continues to ring up new high records while holding its 11.5% margin of increase over last year. Sponsors of the New Deal transmission grid plan insist that it will help not harm, private interests. The **utility** industry expects to spend $600,000,000 next year on new construction, against $480,000,000 this year and $920,000,000 in the peak year, 1930.

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Steel operations are tapering off a little as the year draws to a close, to facilitate repairs and for inventory reasons; but at a less than normal seasonal rate, despite the circumstance that new orders are currently coming in at only about 65% of capacity. November exports of Iron, Steel and their products amounted to nearly $33,000,000, an increase of 69% over last year, whereas the October increase was only 53%.

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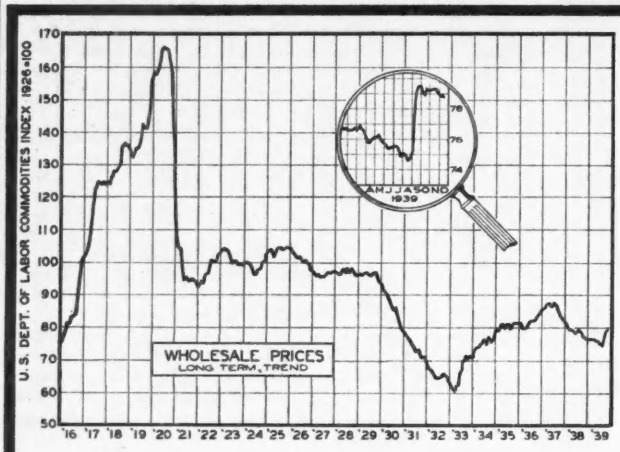
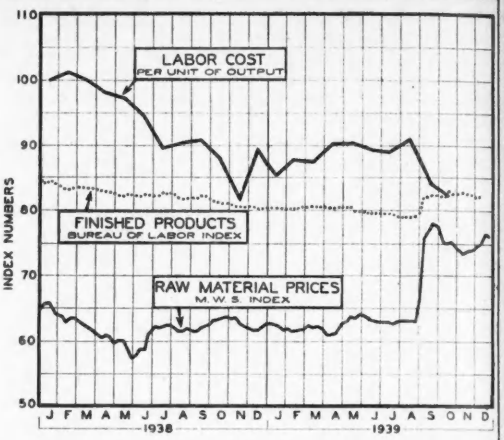
Gasoline stocks are increasing at a dangerously high rate through necessity of meeting a heavy and rising demand for fuel oil. In consequence of this, retail **prices** have sagged to the lowest level since 1933. Exports of **petroleum** and its products during November were only 7% above last year, compared with a 13% increase for October.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet's. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. In. Conf. Bd. 1936—100. (p)—Polk estimates. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

The commodity markets over the past fortnight were featured by soaring wheat prices, reflecting in strength in other grains, and a further upturn in the prices of cotton and textiles. While devoid of the spectacular elements which characterized the wheat and cotton markets, industrial commodities were firm. Despite the fact that the renewed upturn in representative commodity price indexes followed closely on the heels of the recent prediction by the TNEC that a secondary buying movement, appeared to be imminent, industrial buyers have not as yet shown any marked inclination to enlarge purchases. Quite possibly the strength in certain commodities may broaden out to include a more representative group of industrial raw materials, but until the evidence suggestive of a sustained advance is more conclusive new commitments need not be hastened in the fear of being caught in a maelstrom of rapidly advancing prices.





Changes in Major Commodity Price Groups for the Fortnight Ended Dec. 16, 1939

Farm Products	66.8	down 0.3	Metals	96.1	down 0.1
Foods	71.1	no change	Building Material	93.4	up 0.4
Hides and Leather	104.2	up 0.3	Chemical	77.6	up 0.1
Textiles	76.7	up 0.7	Housefurnishings	90.9	up 0.9
Fuel and Lighting	73.7	down 0.7	Miscellaneous	76.9	down 1.5

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
March	Dec. 21	11.01	10.85	8.34
May	Dec. 21	10.63	10.57	8.14
Spot	Dec. 21	11.31	11.13	8.79
(In bales 000's)				
Visible Supply, World	Dec. 21	(X)	(X)	......
Takings, World, wk. end	Dec. 21	(X)	(X)	......
Total Takings, season Aug. 1 to	Dec. 21	(X)	(X)	......
Consumption, U. S.	Nov.	719	687	596
Exports, wk. end	Dec. 16	178	212	45
Total Exports, season Aug. 1 to	Dec. 16	2,628	2,450	1,719
Government Crop Est. (final)	Dec. 1	11,792	......	11,943(ac)
Active Spindles (000's)	Nov.	22,774	22,659	22,447
WHEAT				
Price cents per bu. Chi. closing				
December	Dec. 21	1.08¾	1.01¾	63¾
May	Dec. 21	1.05¾	99⅜	66⅜
Exports bu. (000's) since July 1 to	Dec. 9	57,054	53,178	82,081
Exports bu. (000's) wk. end	Dec. 9	3,876	4,836	235
Visible Supply bu. (000's) as of	Dec. 9	124,425	127,678	120,249
Gov't Crop Est. bu. (000's) (winter)	Dec. 1	399,000	......	563,431(ac)
CORN				
Price cents per bu. Chi. closing				
December	Dec. 21	55⅜	55	49⅞
May	Dec. 21	58⅜	56¼	52⅛
Exports bu. (000's) since July 1 to	Dec. 9	1,284	6,992	292
Visible Supply bu. (000's) as of	Dec. 9	38,055	36,895	46,037
Gov't Crop Est. bu. (000's) (final)	Dec. 1	2,619,137	......	2,562,197(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Under the impetus of greatly increased trading activity, cotton prices staged the largest gains since the first week in September and prices reached the highest levels since August, 1937. Prices have now risen more than 30% since early October. Accompanying the rise have been several significant developments. Particularly noteworthy has been the substantial increase in export demand, accompanied by three successive reductions in the export subsidy. Also a considerable amount of cotton pledged under the 1938 loan is coming on the market. Although sentiment is equally strong on both sides of the market, some reaction would be logical.

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Wheat. Prices rose spectacularly and it was not until near the close of the past week that any particular resistance was encountered. Under the weight of profit taking and reports of increased moisture in the winter wheat belt, the market reacted with the approach of the holiday. Private estimates place the current winter crop at the lowest figure since 1900, while official estimates of the Argentine crop indicate the smallest yield in twenty-four years, with only two exceptions. Exports continue to lag.

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Corn. Corn prices took their cue from wheat, registering sizeable gains. Export sales have revived moderately, and belief in an early and more substantial revival is gaining adherents.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb				
Domestic	Dec. 21	12.50	12.50	11.25
Export f. a. s. N. Y.	Dec. 21	12.45	12.85	......
Refined Prod., Domestic (tons)	July	57,339	61,719	35,596
Refined Del., Domestic (tons)	July	59,681	53,573	48,071
Refined Stocks, Domestic (tons)	July 31	316,543	335,017	339,997
Refined Prod., World (tons)	July	158,236	173,205	139,483
Refined Del., World (tons)	July	181,487	180,433	177,580
Refined Stocks, World (tons)	July 31	490,419	513,670	523,196
TIN				
Price cents per lb., N. Y.	Dec. 21	49.75	51.00	46.00
Tin Plate, price $ per box	Dec. 21	5.00	5.00	5.00
World Visible Supply† as of	Oct. 31	38,206	31,168	38,945
U. S. Deliveries†	Oct.	6,040	5,050	4,960
U. S. Visible Supply† as of	Oct. 31	23,886	13,494	9,302
LEAD				
Price cents per lb., N. Y.	Dec. 21	5.50	5.50	4.85
U. S. Production (tons)	Nov.	48,467	42,563	39,800
U. S. Shipments (tons)	Nov.	64,365	66,060	42,032
Stocks (tons) U. S., as of	Nov. 30	58,061	73,963	115,236
ZINC				
Price cents per lb., St. Louis	Dec. 21	6.00	6.00	4.50
U. S. Production (tons)	Nov.	53,524	50,117	40,343
U. S. Shipments (tons)	Nov.	64,407	73,327	43,693
Stocks (tons) U. S., as of	Nov.	61,522	72,405	120,778
SILK				
Price $ per lb. Japan xx crack	Dec. 21	4.04½	3.83	1.81½
Mill Dels. U. S. (bales), season to	Sept. 30	96,098	59,229	109,941
Visible Stocks N. Y. (bales) as of	Sept. 30	27,760	25,060	40,711
RAYON (Yarn)				
Price cents per lb	Dec. 21	53	53	51
Consumption (a)	Nov.	32.9	34.1	21.7
Stocks as of (a)	Nov.	7.5	9.4	40.0
WOOL				
Price cents per lb. tops, N. Y.	Dec. 21	1.16½	1.16½	.82
HIDES				
Price cents per lb. No. 1 Packer	Dec. 21	15.00	14.75	11.75
Visible Stocks (000's) as of	Nov. 1	12,489	12,523	13,159
No. of Mos. Supply as of	Nov. 1	6.3	6.4	6.6
RUBBER				
Price cents per lb	Dec. 21	20.55	20.80	16.30
Imports, U. S.†	Nov.	42,586	41,250	31,054
Consumption, U. S.†	Nov.	54,322	55,764	49,050
Stocks U. S. as of	Nov.	118,535	133,183	242,542
Tire Production (000's)	Oct.	5,431	5,007	4,183
Tire Shipments (000's)	Oct.	5,188	5,621	4,126
Tire Inventory (000's) as of	Oct.	8,657	8,364	8,237
COCOA				
Price cents per lb. Jan.	Dec. 21	5.63	5.66	4.28
Arrivals (thousand bags)	Nov.	434	467	145
Warehouse Stocks (thousand lbs.)	Dec. 15	1,118	1,128	912
COFFEE				
Price cents per lb. (c)	Dec. 21	7⅛	7⅜	8
Imports, season to (bags 000's)	Oct. 31	5,652	4,255	5,659
U. S. Visible Supply (bags 000's)	Dec. 1	1,825	1,977	1,522
SUGAR				
Price cents per lb.				
Raw	Dec. 21	2.95	2.95	2.85
Refined (Immediate Shipment)	Dec. 21	4.70	4.70	4.45
U. S. Deliveries (000's)*	1st 10 mos.	5,902	......	5,450
U. S. Stocks (000's)* as of (rr)	Oct. 31	694.3	......	700.2

Copper. The announcement that the British Ministry of Supply would raise maximum prices on copper, lead and zinc, bringing them more nearly in line with world prices was followed in the United States by some stiffening in export quotations. Apparently the action of the British Ministry was designed to compensate producers, selling to private fabricators, for heavier transportation costs. Under the weight of year-end influences domestic demand continues restricted and markets are quiet.

* * *

Tin. Prices continue fairly firm, although only a small quantity of tin has changed hands recently. Tin plate operations have eased to 87%.

* * *

Lead. Last month domestic stocks of refined lead dropped to the lowest level since July, 1930. Despite the fact that production was stepped up in November, deliveries were larger than had previously been anticipated. Statistical position is unusually strong and sentiment has been bolstered by the action of the British Ministry referred to above.

* * *

Zinc. Most sellers continue to hold out for a 6.50 cents price but very little business is being done. The domestic price should be aided by the action of the British Ministry and renewed demand for galvanizing operations is anticipated early in 1940.

* * *

Silk. Prices crossed $4 for the first time in nearly ten years. Japanese buying stimulated by rising consumption was partly responsible for the rise in prices. Domestic speculation contributed the balance of the impetus. Rumors of an impending depreciation in the yen were heard. Domestic stocks are low but consumption continues to decline.

* * *

Wool. The tight domestic supply situation promises to be eased somewhat by the announcement that Australia would ship 22,500,000 pounds to the United States at prices ranging from 90 cents to $1.02 a pound.

* * *

Hides. Spot prices are firm, although futures were lower near the close of last week, largely in reflection speculative selling. Shoe production this year may establish a new all time record surpassing the previous peak in 1936.

* * *

Rubber. Domestic consumption in November was the largest for that month in the history of the industry and 20% above last year. Imports ran behind consumption and stocks were the smallest for any November since 1930. Supplies are equal to only two months' requirements but apparently the trade is not particularly fearful of a serious shortage.

* * *

Cocoa. No announcement has been made as to the manner in which Great Britain will dispose of the Gold Coast crop. Market opinion is inclined to believe that Britain is withholding its plans awaiting a better market.

* * *

Sugar. Announcement that the duty on Cuban sugar would be reduced to 90 cents from $1.50 a hundredweight whenever President Roosevelt declares the Cuban sugar quota to be again operative found little response in raw sugar prices.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. (X)—No foreign statistics allowed to be sent from abroad because of war conditions.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Dec. 22	1¼%	1¼%	1¼%
Prime Commercial Paper	Dec. 22	½-¾%	½-¾%	⅝-1%
Call Money	Dec. 22	1%	1%	1%
Re-discount Rate, N. Y.	Dec. 22	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Dec. 9	2,588	2,715	2,264
Cumulative year's total to	Dec. 9	120,528	......	108,824
Bank Clearings, N. Y.	Dec. 9	3,168	3,785	3,813
Cumulative year's total to	Dec. 9	164,715	......	165,462
F. R. Member Banks				
Loans and Investments	Dec. 13	23,523	23,162	21,504
Commercial, Agr., Ind. Loans	Dec. 13	4,416	4,378	3,872
Brokers Loans	Dec. 13	818	650	858
Invest. in U. S. Govts	Dec. 13	8,863	8,724	8,080
Invest. in Govt. Gtd. Securities	Dec. 13	2,413	2,415	1,696
Other Securities	Dec. 13	3,376	3,377	3,232
Demand Deposits	Dec. 13	18,981	18,824	16,221
Time Deposits	Dec. 13	5,251	5,237	5,130
New York City Member Banks				
Total Loans and Invest	Dec. 20	9,156	9,228	7,855
Comm'l Ind. and Agr. Loans	Dec. 20	1,697	1,711	1,384
Brokers Loans	Dec. 20	666	638	690
Invest. U. S. Govts	Dec. 20	3,533	3,625	2,881
Invest. in Gov't Gtd. Securities	Dec. 20	1,224	1,229	845
Other Securities	Dec. 20	1,195	1,209	1,089
Demand Deposits	Dec. 20	8,378	8,447	6,854
Time Deposits	Dec. 20	651	662	599
Federal Reserve Banks				
Member Bank Reserve Balance	Dec. 20	11,378	11,288	8,472
Money in Circulation	Dec. 20	7,679	7,564	6,943
Gold Stock	Dec. 20	17,576	17,464	14,454
Treasury Currency	Dec. 20	2,959	2,954	2,788
Treasury Cash	Dec. 20	2,411	2,398	2,677
Excess Reserves	Dec. 20	4,900	4,850	2,980
NEW FINANCING (millions of $)				
Corporate	Nov.	112.2	175.5	151.2
New Capital	Nov.	21.4	18.2	43.5
Refunding	Nov.	90.8	157.3	107.7

The latest weekly statement of the Federal Reserve Banks discloses a further reduction in the portfolio of the Federal Reserve Open Market Committee. In the latest week $15,750,000 of Treasury bonds were liquidated, bringing the net reduction since Nov. 8 to $52,475,000. Five of the past seven weeks have shown a reduction. Incidentally, it was also shown that the New York City Member Banks sold Treasury bonds during the past week, the total liquidation amounting to $26,000,000. Reports were current that buyers of longer term Treasuries included both out-of-town banks and insurance companies.

* * *

The statement of all member banks for the week ended Dec. 13 showed an increase of $38,000,000 in loans to commerce, industry and agriculture. Commercial loans in the last seventeen weeks have risen $501,000,000 and are $544,000,000 larger than a year ago. For the week ended Dec. 20, however, commercial loans of New York City Member Banks dropped $14,000,000 and this may mark the start of the seasonal decline in business borrowings, the peak of which normally occurs some weeks earlier.

* * *

New York City banks reported an increase of $28,000,000 in brokers' loans bringing the total rise in this item to $159,000,000 over the past two weeks. The upturn, however, is attributed largely to borrowings in connection with recent Treasury financing, and is therefore likely to prove temporary.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1939 Indexes High	Low	Dec. 9	Dec. 16
316 COMBINED AVERAGE	73.1	50.7	65.3	64.7
5 Agricultural Implements	119.9	81.4	103.4	105.4
6 Amusements	43.2	26.8	28.4	27.6
15 Automobile Accessories	97.2	55.2	88.7	87.4
12 Automobiles	13.2	8.1	11.6	11.4
11 Aviation (1927 Cl.—100)	212.1	128.2	191.7	195.7
3 Baking (1926 Cl.—100)	15.4	11.2	11.9	11.2x
3 Business Machines	183.9	110.8	116.9	110.8L
9 Chemicals	187.2	123.7	163.6	166.0
20 Construction	47.5	27.7	33.8	32.8
5 Containers	242.6	165.0	227.3	226.9
9 Copper & Brass	124.4	71.2	101.0	101.3
2 Dairy Products	32.1	23.6	29.5	29.0
8 Department Stores	23.9	16.5	21.4	20.7
7 Drugs & Toilet Articles	53.5	40.4	44.8	45.5
2 Finance Companies	312.0	219.4	260.1	257.0
7 Food Brands	103.3	69.1	94.4	95.0
3 Food Stores	48.6	33.3	46.4	46.3
4 Furniture & Floor Covering	72.1	47.1	56.1	56.9
3 Gold Mining	1301.2	884.6	936.0	917.0
6 Investment Trusts	28.1	19.2	23.1	22.6
4 Liquor (1932 Cl.—100)	193.1	133.0	150.8	141.6
9 Machinery	129.0	83.3	112.3	114.5

(Nov. 14, 1936 Close—100)	1939 Indexes High	Low	Dec. 9	Dec. 16
100 HIGH PRICED STOCKS	72.77	53.58	66.79	66.84
100 LOW PRICED STOCKS	66.79	44.98	57.62	56.38
2 Mail Order	93.0	69.2	90.0	91.0
4 Meat Packing	65.4	41.5	55.4	55.1
14 Metals, (non-Ferrous)	192.9	122.0	162.9	158.4
2 Paper	14.4	7.5	14.2	14.4H
24 Petroleum	101.0	74.3	83.1	81.3
18 Public Utilities	62.6	44.9	53.2	52.3
4 Radio (1927 Cl.—100)	17.0	10.0	11.0	11.0
9 Railroad Equipment	65.1	33.7	54.0	54.2
22 Railroads	20.5	10.9	14.3	13.7
2 Realty	7.9	2.2	2.6	2.2R
2 Shipbuilding	85.0	45.1	76.1	77.1
13 Steel & Iron	105.6	60.4	88.8	87.6
2 Sugar	39.0	13.3	28.0	28.8
2 Sulphur	176.3	113.0	160.3	161.3
3 Telephone & Telegraph	53.2	40.3	45.8	45.8
4 Textiles	62.4	27.4	54.2	55.3
4 Tires & Rubber	20.0	13.0	15.4	15.2
4 Tobacco	86.5	76.2	83.2	82.8
4 Traction	39.1	21.9	36.8	35.8
4 Variety Stores	255.8	189.3	234.7	232.8
20 Unclassified (1938 Cl.—100)	112.0	73.1	92.2	92.7

H—New HIGH since 1937. x—New LOW this year. L—New LOW since 1937. R—New LOW record since 1929.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Continental Baking Co.

I understand Continental Baking Corp. may pay up arrears on the preferred before the end of the year. Does this mean that distributions on the class "A" stock may be resumed next year? Have higher material costs affected profit margins unfavorably? Is it advisable for me to continue holding 120 "A" shares which cost 21¾?—Dr. J. T. W., South Orange, N. J.

Continental Baking Co. is the nation's largest baker of breads, cakes and pastries. Heavy promotional efforts aid in maintaining the concern's competitive position. Raw material costs and levels of consumer purchasing power are important earnings determinants. Depression influences resulted in an almost steady earnings decline from 1929 through 1935. Recovery then set in, earnings scoring consecutive yearly gains through 1938. Net income in that year allowed for class "A" per share earnings of $4.41 up from $3.23 in 1937. On July 1, last, current assets, including cash of $5,111,563, amounted to $8,253,743, as against current liabilities of $2,183,305. The capital structure is made up of subsidiary funded debt of $30,000, 1,999,900 class "B" shares, 291,813 class "A" shares and 400,000 preferred shares. A relatively poor first quarter offset later earnings gains with the result that net earnings of $1.86 per class "A" share in the thirty-nine weeks ended September 30, last, were well under the $2.62 a share reported in the comparable weeks of 1938. Full year results may be in the neighborhood of $3.40 per share. Ingredient costs have risen but expanding sales and possible price advances will be of aid to earnings in early 1940. The Board of Directors will not meet again this year so that preferred dividend arrears of $6 a share are not likely to be eliminated prior to the year end. Thus resumption of distribution on the class "A" shares is uncertain at this time. The class "A" shares, reasonably priced in relation to earnings, would appear sufficiently attractive at this time to warrant their continued speculative attention.

Interstate Department Stores, Inc.

Have been holding 200 shares of Interstate Department Stores common at 16½ since last year. Now despite continuing reports of store sales being up month after month, the shares can't seem to break through a high of 14¾. Does this just reflect market hesitancy or is there another reason? What action do you advise?—T. C. T., Springfield, Ohio.

Interstate Department Stores, Inc., one of the nation's leading retail organizations, operates thirty-nine department stores located in medium-sized eastern, southern and mid-western cities. Catering to the working class, sales are largely for cash. Quite naturally sales and earnings tend to follow rather closely the trends of employment levels in the various territories served. This fact is clearly demonstrated in the sharp earnings swnigs of recent years. Recovering from a deficit of $3.77 per common share in the term ended January 31, 1933, profits rose consecutively to the equal of $3.23 a share in the year completed January 31, 1937, only to decline to the equal of 65 cents a share, the following year, and in the period ended January 31, last, a loss of 69 cents a share was incurred. As of the last fiscal year-end, finances were sound, in that current assets, including cash of $1,710,742, exceeded current liabilities by $4,308,983. At last accounts the 301,846 shares of no par value common stock were preceded in the capital structure by 22,920 shares of $7 preferred stock (redeemable at 110) and $514,935 of mortgages. Improvement was evident in the six months ended July 31, last, and the deficit of 67 cents a share was well under the corresponding year earlier loss of $1.60 per share. Sales in the ten months ended November 30, last, were 5.58% above year earlier levels. Widening profit margins and possible additional sales gains occasioned

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by satisfactory levels of industrial activity in the areas served, may result in a modest profit being reported for the term to end shortly. Resumption of dividend payments is not expected this year. Since no early substantial decline in business activity is looked for, further improvement in early 1940 is quite possible. We would advise continued longer term speculative retention.

Wheeling Steel Corp.

Are your analysts favorably disposed toward Wheeling Steel common at present? Have noted with satisfaction the excellent showing for the September 30 quarter. Is this improvement likely to be maintained throughout the next quarter? Can you provide any recent information on profit margins and orders book? I own 75 shares at 32⅛.—B. W., Augusta, Ga.

Normally, about 75% of the output of Wheeling Steel Corp. is strip, sheets and tin-plate, while the bulk of the remainder consists of pipe, tubing and wire products. The automobile industry is the leading customer followed by manufacturers of tin containers and concerns operating in the petroleum, gas, mining, building and railroad industries. Earnings of steel manufacturers are subject to wide cyclical fluctuations and, although Wheeling's operating record has been better than the industry average, the company is no exception to the rule. After a four-year span of deficits, ending with 1934, profitable operations were resumed in 1935 and earnings expanded through 1937, when net was equal to $4.03 a share, only to again vanish last year when a loss of $2.44 a share was incurred. Finances continue in fine shape. Giving effect to complete conversion of the 6% preferred shares as approved by stockholders several years ago, capitalization, according to the latest balance sheet consisted of funded debt of $32,200,000, 381,547 shares of $5 cumulative no par value preferred stock and 578,864 shares of no par value common stock. Under the more favorable conditions obtaining in the first nine months of 1939, considerable improvement in operations took place and results for the interval were equivalent to $3.42 a share which was in sharp contrast to a loss of a similar amount in the corresponding year earlier interval. Earnings of about $4.50-$5 a share are anticipated for the full year, and operations in 1940 are likely to continue most satisfactory, particularly if the war continues. With better prices being received and volumes expanding, the probabilities are that profit margins are somewhat wider than was the case several months ago. No recent information is available in connection with bookings. Dividend arrears on the few remaining 6% preferred shares may be paid off in the not too distant future, leaving the way clear for dividend resumption on the common stock. The shares appear rather interestingly priced at present levels and we would advise continued speculative retention.

United Aircraft Corp.

Missed the recent high of 51 for United Aircraft of which I own 75 shares purchased at 42. Frankly, I anticipated higher levels but have since become worried by action of market in last two weeks. Are Pratt & Whitney, Sikorsky, Vought and Hamilton divisions all operating profitably? Should I continue to hold?—E. B. C. Chattanooga, Tenn.

From the standpoint of sales volume, United Aircraft Corp., a completely integrated manufacturer of airplanes, propellers and engines, for military and commercial purposes, ranks as the leading organization in the field. In the four years ended with 1938, the engine division (Pratt & Whitney) accounted for 48% of total revenues, the propeller division (Hamilton Standard) 25%, the plane manufacturing division (Chance Vought and Sikorsky) 25%, with royalties, etc., accounting for the remainder. An able and aggressive management and a large staff of experimental engineers aids considerably in keeping the concern in the forefront of the industry. Sales and earnings have expanded sharply in recent years and profits of $2.05 per common share for 1938, up from $1.52 a share in 1937, were at record high levels. The working capital position is exceedingly strong as was shown by the balance sheet of June 30, last, when cash and marketable securities alone of about $16,000,000 exceeded total current liabilities by a substantial margin. The 2,649,437 shares of $5 par value capital stock enjoys sole claim on the assets and earnings of the concern. A sharp increase in sales, as well as wider profit margins, lifted per share earnings in the January-September interval of 1939 to the equal of $2.18 from $1.40 in the similar 1938 interval. With shipments increasing in the current quarter, estimates are currently being made that full year earnings will approximate $3.25 a share. As of December 1, last, a backlog approximating $125,000,000 was on hand and considerable new foreign business, as well as large additional U. S. Government orders appear in prospect over coming months. Plant facilities have been increased and a considerable rise in sales is looked for next year. Accordingly, with profit margins expected to remain wide because of the large amount of foreign business on hand, a new high for earnings would appear to be in prospect. Dividends to be paid next year may possibly exceed the current year figure of $2 a share. No operating details regarding the individual subsidiaries are available. With continued earnings expansion apparently assured, we regard the shares as being well worth continued retention in speculative portfolios.

George W. Helme & Co.

Although the yield on George W. Helme common stock has been satisfactory, I would like to have your opinion of shares again reaching levels of around 113 at which I bought 50. Is it true that demand for snuff increases in war time? May I have your current appraisal of this company?—Mrs. E. E. de A., Fresno, Calif.

The record of George W. Helme & Co. entitles the stock to consideration, particularly by those investors who place a reasonable and secure income ahead of dynamic appreciation possibilities. Interim earnings are not published, but it is expected that the company will show profits of approximately $6 per share this year, which would be moderately ahead of the $5.84 per share reported for 1938. The firm is one of the larger producers of snuff, normally accounting for about one-third of total domestic output. Sales are believed to be largely national, rather than international, so that the war in Europe is not likely to have any great effect on the consumption of snuff. Earnings in the past years have been characterized by a relatively good degree of stability, and

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As the Trader Sees Today's Market

(*Continued from page* 349)

record they are: American Radiator, Eastman Kodak, International Nickel, Loew's, National Cash Register, Owens-Illinois, Paramount, J. C. Penney and Woolworth, American Tobacco B was unchanged. Not all of the losses can be ascribed to baneful effects of the war on foreign interests. In some cases an even more important consideration was the switching which went on in the endeavor to avoid the sleepers and get into the advancing issues. Penney, for instance, has its attractions in any kind of setting, but the funds tied up in that stock could have been almost doubled by switching to a steel at the right time. At least a great many people tried.

Penney and Sears were the only two stocks in the average higher on August 24th than at the end of 1938. The remainder of those which show plus signs on the year earned them in the early autumn. Electric Auto-Lite, Industrial Rayon and United Aircraft were the others to lead in the war rally and also to show plus signs on the year. Table III compiles the issues which have moved higher since the September top in the average. Of the dozen listed, the five already mentioned had net gains during 1939, and the rest lost ground in the September rally, with the exception of American Tobacco B which remained unchanged.

Five issues declined in the first eight months of the year and have lost more ground since. They are International Nickel, Loew's, National Cash Register, Paramount, and Woolworth. All of them suffered during the September rally. Each of them has a particular reason to dislike this present war.

The 8% drop in the average of course ignores dividends paid on the issues contained in it. These payments, not including any which may be declared in late December, were equal to about 4% of the average itself, thus accounting for half of the loss. They also indicate a yield of better than 4 per cent for anyone who buys the 40 stocks today. Considering the fact that many of these stocks paid no dividends during 1939, the yield is surprisingly good. It seems to indicate more optimism on the part of corporations than individual stock buyers. If payments could be maintained throughout next year at the same rate, and a few of the unproductive issues added to the list of dividend payers, the 1940 report on the average and its components would be inevitably more inspiring than that for 1939.

Profit Prospects for the Airlines

(*Continued from page* 354)

particularly from the traffic which turns South in winter. Thus its route connecting Newark and Miami is particularly valuable and active during the winter months, as is the route operated between Chicago and Jacksonville, Florida.

Both American Airlines and T. W. A. were granted increased mail pay toward the end of 1938 in accordance with a rule by the Interstate Commerce Commission. United Air Lines has not yet, however, been granted an increase. This is particularly noteworthy since United has always carried the largest loads of any domestic mail line. For this reason United has much to look forward to since an increase should be granted in the not too distant future.

The capitalization of three of these four major domestic companies consists entirely of common stock. United Air Lines has a total of 1-499,592 shares of ($5 par) common outstanding, while Transcontinental has 830,846 shares of ($5 par) stock. American Airlines has $3,589,323 funded debt and only 290,072 shares of ($10 par) common stock, and Eastern some 423,618 ($1 par) shares. The total approximate market value of these four companies at current levels for their shares is $57,182,000, which is not a large figure when it is realized that these four companies represent the cream of the rapidly expanding domestic air transport business. Possibly the need for new equipment will lead to financing arrangements by use of the equipment trust method in the future. This method has already been undertaken by Pan American Airways at a 4% rate. Travelers Insurance Co. has agreed to purchase this type of security from time to time from Pan American in an amount not to exceed $1,000,000.

The earnings record of the different lines has varied in accordance both with operating conditions and policies, American Airlines has gradually systematized its flying equipment, whereas several years ago its fleet was composed of a heterogeneous assemblage of many antiquated models. For the nine months ended September 30, 1939, net income amounted to $964,283, or the equivalent of $3.21 per share in contrast with $0.17 per share in the same part of 1938.

Eastern Air Lines was organized in March, 1938, as an outgrowth of North American Aviation Co. Reports of operations as far back as the year ended December 31, 1935, show a consistent improvement in profits each year. Earnings in the first nine months ended September 30, 1939, totaled $456,841, equal to $1.08 per share against 33 cents per share in the similar period of last year.

Except for the year 1936 net income of United Air Lines and T. W. A. has been most of the time in the red. This is understandable in view of the rapid progressive shift of models these companies have undertaken with the result that instead of a depreciation rate of say 12.5% annually a far greater write-off became necessary. Once these newer models have become relatively stabilized earnings should improve, and present indications point toward this accomplishment. Thus United has reported a profit in each of the first three quarters of 1939. In the nine months ended September 30, 1939, net income totaled $354,367, or 23 cents per share, against a loss of 55 cents per share in the first nine months of 1938. T. W. A. has shown the same trend as United though it is pertinent to note that this company has not, as yet at any rate, installed 42-passenger models. In the nine months ended September 30, 1939, net income came to $212,396, or a loss of 26 cents per share. Though a profit was reported in the second and third quarters the loss of 44 cents per share in the first three months was too great to be offset.

From present indications American Airlines and Eastern Air Lines should have relatively smooth sailing from here on. Both lines appear to have reached a stable operating basis.

United Air Lines seems to be turning the corner, and in the end may be one of the leading carriers, since its lines cover the shortest coast-to-coast route. Credit should also be given its management for far-seeing policies and a greater than average progressiveness and initiative in an industry which naturally sparkles with these qualities. T. W. A. though likely to lag behind United will probably follow the same trend. The future of all four companies appears bright, and the next five years is likely to witness the establishment of air travel on a sound economic basis.

Why 1940 Profits Will Be Up For Installment Finance Companies

(*Continued from page* 351)

of the capital stock of American Credit Indemnity Co. created an additional outlet enabling Commercial Credit to enter the credit insurance business. This consists of insuring manufacturers, mills and wholesalers against credit losses on a certain percentage of receivables, or on the specified accounts of certain customers.

Besides the volume of receivables there are two other elements which have an important influence on earnings potentialities. There is for one the current rate for money, since both of these organizations borrow substantial amounts from the banks and in the open market on their securities. With the existence of low money rates they are able to retire their securities, while with tighter money they are in a position to charge customers the going rate and raise additional capital either through bank borrowings or the issuance of their own obligations in the open market. Since they deal both in money and negotiable paper funds can be put to work wherever they offer the most profit.

The other factor having a bearing upon earnings is that of expense and losses. Each concern must of necessity maintain a going organization at all times, which can be reduced in times of slack business only within limits. Sufficient business must be obtained to take care of this fixed and non-variable overhead. Losses are generally held to a minimum, and on the average are less than 1% of receivables. This, of course, testifies to the ability of management in the assumption of credit risks, and indicates the need for a specially trained personnel.

For reasons already mentioned the capital set-up of these companies varies from time to time. As of June 30, 1939, funded debt of C. I. T. amounted to $60,500,000, though $25,000,000 has been retired, as of November 27th, and bank loans substituted. In addition there are 95,441 shares of Series 1935 cumulative preference $4.25 (no par) stock convertible into 1½ shares of common, and 3,529,925 shares of (no par) common stock. In 1938 retail automobile notes accounted for 50.6% of total outstanding receivables with wholesale automotive acceptances, 9.7% and textile factoring paper, 10.5%. The balance of miscellaneous industrial receivables accounted for 29% of the total. In 1937 the ratio of net income to receivables was 2.1% against 1.5% in 1938, which is largely attributable to the falling off in business during the latter year. Earnings on the common stock in these two years were equal respectively to $5.73 and $4.28 per share, and for the nine months ended September 30, 1939, to $3.28 per share.

Funded debt of Commercial Credit, as of June 30, 1939, totaled $65,000,000. This was followed by 121,948 shares of ($100 par) 4¼% cumulative preferred stock, which is convertible at the rate of one share of common for each $60 par value of preferred, through June 30, 1941, and thereafter at the rate of one common share for each $65 par value of preferred. There are also 1,842,008 shares of ($10 par) common stock outstanding. During 1938 retail motor car receivables accounted for 48.4% of the total; wholesale motor car notes, 14.2%; industrial retail liens, 22.1%; open accounts and notes, 7.9% and factoring receivables, 7.2%. In 1937 earnings were equal to $7.10 per share and in 1938 to $4.60, while the ratio of net income to receivables in these years were 1.4% and 1.7%, respectively. At the end of 1938 some 59.2% of the capital stock of Gleaner Harvester Corp., was held pending an opportune time for its disposal. Earnings on these shares in 1938 were equivalent to $3.08, but consolidated net income of Commercial Credit does not include income from this source. In the nine months ended September 30, 1939, earnings on the common were $2.91 per share compared with $3.71 in the similar part of 1938.

With automobile sales expanding once more it seems safe to conclude that the final quarter of 1939 and particularly the first quarter of next year should result in considerable improvement in earnings.

Preview for 1940

(*Continued from page* 331)

opment of South American markets to replace lost European business, the industry's outlook can be considered no better than mediocre.

PETROLEUM—If volume were all that mattered, the oil industry could count 1939 a banner year since crude output was only slightly under 1937 and sales of refined products set a new all-time record. The industry has been afflicted with price troubles, however, and with burdensome inventories which, incidentally, are currently approaching a dangerous level in the eyes of trade statisticians. Except in the case of a few special lubricants and aviation gasolines, the war has not noticeably increased demand for American oil nor is it likely to except in the improbable event that supplies of South America and the Near East are cut off simultaneously with an intensification of hostilities. While domestic demand is expected to hold at a high level next year, the price outlook is not particularly impressive. Failure of California and Illinois to institute adequate crude production controls has not helped the industry's prospects.

AVIATION—The boom in aircraft manufacturing continues to gather momentum and, so long as the war lasts, no letdown is in sight. Production rates are being raised almost daily in an effort to speed up deliveries against a backlog in excess of $600,000,000 of which by far the greater part represents orders from the British, French and American Governments. Output and profits of the industry's leading units

will undoubtedly record substantial further advances in coming months. A sudden end to the war would, of course, result in severe temporary repercussions but continuing and growing demand from commercial and private sources would cushion the shock and hasten recovery.

Not to be outdone by the manufacturing branch of the industry, the air transport companies are also coming into their own. An estimated 40% gain this year in revenue passenger miles flown has put nation's larger lines well into the black and several have now reached the point where they are no longer dependent on airmail revenues. Continued growth in gross and net is forecast.

CHEMICALS — Consumption of chemical products this year is estimated at about 20% over 1938, most of the gain coming this fall and carrying sales and earnings of a number of the industry's better situated concerns into new high ground. Though only moderate gains may be recorded next year in the fertilizer and basic industrial divisions, improvement elsewhere in the industry should be salutary. Plastics in particular are finding rapidly widening markets and other synthetic products are being constantly developed and exploited. The industry's policy of unremitting research together with continuing price reductions virtually assures further secular growth.

MISCELLANEOUS — With the notable exception of New York department stores, retail merchandisers have shared fully in the general business rise of the past few months. For the year as a whole, retail sales were probably about on a par with 1937 or approximately 5% above 1938. Better than average gains have been recorded in rural sales, partially accounting for the recent and continuing outstanding showing of the larger mail order houses. Some letdown in most retail divisions, however, is probable next quarter.

Successive price increases from the unprofitably low levels of early in the year has measurably improved the status of most paper companies despite an accompanying rise in production costs. Curtailment of pulp imports from Scandinavia and Finland has raised costs of units formerly dependent on these sources

considerably above those of the integrated companies, making for a high degree of investment selectivity in the industry. The trade as a whole will probably suffer a reaction after the turn of the year but a continuing satisfactory level of demand should soon rectify the situation.

Continued sales and earnings stability is contemplated for most of the food companies except where rising agricultural prices and rigid selling prices may result in a profit squeeze. The baking companies, especially the biscuit bakers, face such a problem. Traditional year-end price war has broken out in the liquor trade whose prospects remain mediocre.

The machine tool industry will probably continue at close to capacity operations; some units are understood to be booked solid until 1941. Bulk of the business is now coming from abroad, however, emphasizing the speculative war angle.

All divisions of the textile industry except silk continue relatively prosperous due in part to indirect war stimulus. Restriction of raw material supplies somewhat beclouds the outlook for woolens but prospects in the cotton goods and rayon divisions are moderately favorable.

Outlook for the movies remains unimpressive what with curtailment of foreign revenues, failures of domestic receipts to come up to earlier expectations, higher studio labor costs and the prospect of further labor troubles a few months hence when present union agreements come up for readjustment.

Penney's Growth Continues

(*Continued from page* 347)

has been careful not to choose marginal sites for its stores. The trend of earnings, however, is another matter. The general operating methods of the company make it easy for changes to be made in the number and location of stores, and a policy of crossing the weaker stores off the list and adding others in better locations will tend to further stabilize and increase earnings.

Thus far this year the stock has ranged between a high of 94¾ and a low of 74. This narrow range reflects the investment status of the security very well. At the present time it is selling around 91, much closer to the high than to the low. On the basis of the estimated dividends for the year this is a relatively high yield, though not far out of line with other issues of the same type and position, and the rise that is to be expected in rural income as a result of the increases in commodity prices together with the generally accelerated rate of business throughout the country make the prospects for the first part of next year good. Relatively free from labor worry, the company has over a period of years cultivated cordial relations with its employees which naturally go a long way towards keeping earnings at a high rate in relation to the rest of the retail trade. Individual store managers receive remuneration based on the operating success of their particular unit, and from time to time stock in the company has been made available to employees at a price below that current in the market at the time. All this goes to keep the sales force on its toes, and maintain excellent store-customer relations as well. The operations of the chain concentrated as they are

for the most part in small towns where personal associations are an important factor in any business, depend to a great extent on just such cordiality.

All in all J. C. Penney makes a valuable addition to almost any portfolio, for it combines certain growth possibilities with an unusually high rate of return on invested funds. The stability of the company is a demonstrated fact for all through the depression operations were in the black and dividends were paid. And in addition a 50% growth in the number of stores was achieved during this period as well. Though the present move into the large cities represents a reversal of policy, the ability to make such decisions at the right time is the best possible indication of the fact that the management is not coasting along on previous success, but is instead very much alive to the dangers and possibilities presented in the current picture of business in the nation today. The stock may, therefore, be considered as an attractive investment as far as income is concerned as well as offering growth possibilities over the long range.

Wealth for Gold

(*Continued from page* 339)

stand out: to reduce the price we will pay for gold; to stop buying it entirely; or to place some combination of taxes on its import and subsidies on its export which will gradually result in redistributing the metal. The first is politically almost impossible. The "profit" on the devaluation of five years ago will not be given up without a struggle, nor are we likely to risk the deflationary potentialities of a reduced price for gold while we still consider the prices of basic commodities too low. There is without a doubt a better chance that the gold price will be raised slightly than that it will be lowered, although gossip of either move has the odds against its correctness at any given time.

Should we stop buying gold, the effects on the foreign exchange market might be distinctly unpalatable. Owners of pounds, for example, can now buy American dollars with either sterling balances or gold. Closing one alternative would very likely mean a sharp drop in the sterling-dollar rate, making purchases in this country impossible and competition with the British in other markets almost as difficult. We are anxious for several reasons to sell the Allies materials with which to win the war, and we shall undoubtedly continue to buy their gold until the end of the war.

Neither of the two methods discussed would help toward reducing our gold stocks and creating a world-wide value for the metal by giving everyone an ownership stake in it. It is conceivable, though, that by progressive imposts on the flow toward us and encouragements for those who will take it away we can start a gradual reduction of our stocks. It would mean money and goods saved for us, as well as the possibility of an orthodox monetary standard saved for the rest of the world.

The bonus we pay on silver is recognizable and obvious, the subject of great outcry among those who understand the fallacy of it. Yet it is only a fraction of the subsidy we have granted all gold producers and

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These books may be obtained through The Magazine of Wall Street book service.

owners. When the war ends there will be a general clearing up of a great many artificial and unhealthy situations. The gold buying policy of the United States should be first on the calendar.

National Gypsum Profits at Record High

(Continued from page 365)

in 1954 to a group of insurance companies. This was one more step towards a simplification of the capital structure and reduction of interest charges. The improved position of the company has permitted the refunding of bonded indebtedness several times in the last two years, bringing the rate down from 6% to 3⅞%. Likewise two issues of preferred stock have been retired in favor of a 60,000-share issue of $4.50 cumulative convertible (at $20.00 per share until 1941) preferred stock, and two classes of common have been consolidated into one issue of 1,261,458 shares.

The six months' statements issued in June showed assets at a new all-time high of $17,481,601 as compared with $16,370,377 six months before and $12,867,403 in December, 1937. Current assets were $6,253,587 of which cash amounted to $2,117,904 against current liabilities of only $1,559,397. The strength of this position enabled the company to declare the first dividend of its history a short while ago. This initial disbursement of $0.25 per share is certainly not much in the way of return for the stockholder, but it marks a milestone. From now on it may be assumed that expansion will not take the greater part of earnings as it has in the past.

The common stock is currently selling around 11, about midway between the high of 16⅞ and the low of 8¼ for the year. Its position is one of potentialities. The company has shown a marked growth in spite of the generally low prices for its products, and the continuation of the present trend will in all probability bring better profit margins and increased earnings.

The advantages offered to the prospective builder include low down payments, low interest charges, and a considerable amount of help with plans and materials. Experts have calculated that there is a shortage of approximately 2,000,000 homes of the one-family type in this country and the greater majority of them are in this division. Development work is being done on this field steadily by various Government agencies and private companies. It seems certain that a building boom of major proportions would greet the perfection of such a low cost house.

Even though the current construction rate is not high, it is encouraging, and the very fact that National is able to turn in a good profit when its plants are operating at about 50% of capacity speaks well for the potentialities of the company. The low rate of production in the individual factory is no argument for restricting expansion since a major expense is shipping, and the profitable enterprise is the one that can, as National does, serve a principal market from a nearby plant. Present indications are that the company will continue to find room for growth and that the management will put the increased facilities to good use. And given a continuance of the forward move in the construction trades and industry as a whole, the earnings of the company show every possibility of following their upward trend.

Can the Utilities Come Back?

(Continued from page 345)

been increased about 25% in the past two decades, automatically controlled drafts have been introduced and similar advances have been made in fueling.

Achievements of this sort, though they have come gradually enough to be unspectacular, are important in reckoning the industry's future. For though considerable areas of the country remain without adequate electrical service and though increased per capita use may be looked for elsewhere, the industry's principal frontier now lies in the laboratory. But while longer range progress of the utilities will depend largely on their technological ingenuity, their nearer term outlook is still primarily dependent on political factors. Release from political harass-

ment, as distinct from the proper regulatory activities of government, would be the greatest boon that could come to the industry within the next year or so.

To predict whether such release will be forthcoming would be to make a political forecast, and that is beyond the scope of this article. But at least it is not going too far to note what has already happened—the evidence of returning conservatism on the part of the American public that became apparent in the elections of over a year ago and has tended to increase rather than diminish since. Once the pendulum of public opinion has reached the extremity of its arc and begun to swing back in the opposite direction, it seldom if ever reverses itself in mid-course.

That is not to say that Government competition with private utilities will be eliminated if the New Deal is rejected at the polls next fall. It does mean, though, that such competition will not be further extended, that it will be held within present bounds. And, as far as the industry as a whole is concerned, no more is needed.

For despite the uproar of recent years, the area in which the Government is actually in competition with private utilities is small and the portion of the total power market that it is able to reach from existing projects and those currently under construction is fractional. The 2,500,000 kilowatt capacity that Grand Coulee and Bonneville, for example, will have upon completion seems less of a bogey when it is realized that, because power cannot be transmitted economically by alternating current for more than 300 miles, they cannot market more than half that amount. Government engineers are toying with the idea of long distance direct current transmission but, because it involves problems still well beyond present-day technical knowledge, the prospect of realization is dim.

But returning, in conclusion, to the question posed in the title, it is altogether likely that the utilities not only can but will come back. Probably not all the way back to their best earnings levels of a decade ago and, marketwise, certainly not back to the dizzy heights of 1929—but back far enough in both respects to render shares of the industry's better situated companies attractive at current prices for intermediate to longer term appreciation and, in many cases, for yield as well.

Columbian Carbon—United Carbon

(*Continued from page 361*)

Capital structure of both companies is simple. With neither funded debt nor preferred stock outstanding, the ownership of the business in each case rests in the hands of the common stockholders. Columbian has 538,420 shares, and United 397,885 shares outstanding. This simplicity means that a large portion of earnings is passed on to the stockholders in the form of dividends, though some funds go into the development of new property and research work. The company statements at the half way mark this year showed strong current asset positions with cash in each instance equal to more than twice the current liabilities. Both companies also showed the improvement brought about by the reduction in the inventory position.

For the first nine months of this year Columbian Carbon reported net earnings of $4.43 per share as compared with a net of $3.62 per share for the same period of last year. United, however, shows a small decline in earnings with a net per share of $2.78 as against $2.87 per share for the first nine months of 1938. Dividends thus far have been in keeping with the liberal policy pursued in past years. Columbian's total disbursements have already been set at $4.50 per share, an increase of 50 cents per share over last year, while United is expected to pay its regular total of $3 per share.

With earnings primarily the result of natural gas production at the present time, the long range seems to hold good possibilities for an increase in the net of both concerns. At the present rate of consumption, inventories of carbon black are being reduced steadily, and further price increases should be in the offing. Since there are indications that the automobile industry expects a good year in 1940, the rubber manufacturers are expected to make increased demands on the carbon

black producers. Retail tire sales are also expected to show a strong rise since the tires on the 1936-37 models are estimated to be in need of replacement. The war in Europe has affected both carbon black companies to a degree. During a normal year exports take about one-third of their total domestic output, the major portion going to England, France, and Germany in the order named. Naturally the last of the three is no longer a factor, but some increase in other foreign sales is expected. And the total volume of exports is estimated at approximately the usual levels.

At the present time the stocks of both companies are not far from their highs for the year, although the range has not been wide for either. Columbian Carbon is selling around 91, while United Carbon is at 60. The former is selling nearer to its high both percentagewise and in actual points than United, which is, of course, understandable in view of the operating differences that exist between them. They both reflect to a major degree the natural gas operations which are a steady source of income, and the market action of the stocks is in accordance with this steady earnings rate. Once, however, the companies cross the profit line in the carbon black divisions, earnings take on a more dynamic aspect. In 1937, for instance, when carbon black sold for 6 cents per pound, Columbian carbon earned $8.31 per share and United Carbon reported a net of $5.90 per share. The present dividend yields, plus potential expansion of earnings, make them issues of merit for speculative-investment.

Answers to Inquiries

(Continued from page 374)

the slight downtrend which has been in evidence from 1930 through 1938, broken by only small increases in 1933 and 1934, is believed to be due largely to smaller returns on its rather substantial holdings of marketable securities. Over coming months, earnings are expected to show moderate improvement, reflecting lower tobacco leaf costs and rising consumer purchasing power. Dividends have been in excess of earnings for the past several years, but the strong finances of the concern permits this without weakening the company's position. Disbursements are expected to continue at about current levels. Capitalization is rather simple, the 33,829 shares of $7 non-cumulative preferred stock and the 240,000 shares of common stock outstanding having sole claim on assets and earnings. Moderate appreciation possibilities exist, but the chief appeal in this issue is its income producing qualities. With that point in mind, we recommend retention.

New York, Chicago & St. Louis R.R. Co.

Despite the fact that Nickel Plate's recent earnings were sharply better than comparable figures for last year, the common stock showed little response. Is this entirely due to unpaid interest and dividends on notes, bonds and preferred stock? What likelihood is there of resumption of common dividends next year? I own 150 shares bought at 23¼.—Mrs. K. L. T., Darien, Conn.

Lines of the New York, Chicago & St. Louis R.R. Co. reach from Buffalo, New York, across the highly industrialized and agriculturally important Great Lakes region, to Chicago, St. Louis and other important mid-western centers. Traffic is well diversified, but the fortunes of the road closely follow activity in the automobile and other industries operating in the serviced area. Results fluctuate widely, large losses incurred in depression years were followed by several years of profitable operations. The year 1938 was poor, with a common per share deficit of $9.55 being reported as compared with actual earnings of $1.46 a share in 1937. The September 30 balance sheet evidenced a somewhat restricted financial condition. Current assets, which included cash of $2,690,212, exceeded current liabilities by only about $1,000,000. In addition to the 337,427 common shares outstanding, there are 360,547 preferred shares and funded debt of $156,343,000. Operating revenues expanded some $5,500,000 in the ten months ended October 31, last, and as a result the common per share loss in the period was sharply reduced from $10.19 in the corresponding 1938 interval to only 82 cents this year. Betterment has continued since that date and with non-operating income an important factor, it is possible that full year earnings will approximate $2 a share. Some slight recession in current high levels of business activity may occur over near months, but carloadings and earnings are likely to continue to make highly satisfactory comparisons with year earlier figures. Dividend resumption, however, is not likely until the twin problems of a 1941 note maturity and preferred dividend arrears of $49.50 a share are solved. Possessing a good degree of leverage and with the profits outlook relatively favorable at this time, we feel that speculative retention is justified.

Atlantic Refining Co.

Bought 150 shares of Atlantic Refining common at 26⅞ in 1938. Continued to hold in hopes that rate of domestic business activity and potential war demand would lift shares above the 24⅞ high mark for this year. Might this expectation be realized in the next quarter? Please give me your most recent appraisal and advice.—G. J. L., David City, Nebr.

Atlantic Refining reported earnings for the first nine months of the current year somewhat lower than for the corresponding period last year, results being equivalent to $1.01 per share this year, as against $1.31 per share before. Most of this drop was accounted for by the first quarter of 1939, and more recent results show that earnings are currently running ahead of this time a year ago. The company is principally dependent on the spread between crude and refined oil prices. The inventory position of the industry leaves something to be desired, but it is expected that strict proration and the basic improvement in the industry will tend to correct this situation. European requirements of petroleum products are likely to increase, especially if the present war proves to be of long duration. Accordingly, earnings should continue to show an improving trend over coming months. Finances continue to be satisfactory. The company has in the past followed a conservative dividend policy and is likely to continue so over coming months, so that no change in the present dividend rate of $1.00 per share annually is looked for. The common stock has moderately good longer range possibilities, and we feel that your commitment need not be disturbed at this time.

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